

**THE OFFICE OF REGULATORY STAFF
REVISED REHEARING TESTIMONY AND
EXHIBITS**

OF

DANIEL F. SULLIVAN

NOVEMBER 29, 2017



DOCKET NO. 2014-346-WS

**Daufuskie Island Utility Company, Incorporated for
Approval of an Increase for Water and Sewer Rates
Terms and Conditions**

REVISED REHEARING TESTIMONY OF

DANIEL F. SULLIVAN

ON BEHALF OF

THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF

DOCKET NO. 2014-346-WS

IN RE: APPLICATION OF

DAUFUSKIE ISLAND UTILITY COMPANY, INCORPORATED

FOR APPROVAL OF AN INCREASE FOR WATER AND SEWER RATES,

TERMS AND CONDITIONS

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND OCCUPATION.

A. My name is Daniel F. Sullivan. My business address is 1401 Main Street, Suite 900, Columbia, South Carolina, 29201. I am employed by the South Carolina Office of Regulatory Staff ("ORS") as the Deputy Director of the Audit Department.

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A. I received a Bachelor of Science Degree in Business Administration with a major in Accounting from the University of South Carolina in December 1998. From February 1999 to February 2005, I was employed as an auditor with the South Carolina Auditor's Office. In that capacity, I performed audits and reviews of cost reports filed by institutional providers of Medicaid services for the South Carolina Department of Health and Human Services. The primary purpose of these audits and reviews was to establish the applicable reimbursement rates to be paid to Medicaid providers for services rendered

1 to qualified Medicaid patients. In February 2005, I began my employment with ORS and
2 since then have been involved in cases dealing with the regulation of telecommunication,
3 natural gas, electric, low-level radioactive waste disposal, water and wastewater
4 companies.

5 **Q. DO YOU ADOPT THE ORS TESTIMONY AND EXHIBITS OF IVANA C.**
6 **GEARHEART PREVIOUSLY FILED IN THIS DOCKET IN ITS ENTIRETY?**

7 **A.** Yes. In addition, ORS has made adjustments to include the items identified in the
8 guidance provided by South Carolina Supreme Court Opinion No. 27729.

9 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

10 **A.** The purpose of my revised rehearing testimony is to adopt the testimony of Ivana
11 C. Gearheart filed on October 2, 2015, taking into account the adjustments as set forth in
12 South Carolina Supreme Court Opinion No. 27729, and to set forth the findings and
13 recommendations resulting from ORS's examination of the rehearing testimony and
14 exhibits filed by John F. Guastella and Gary C. White, on behalf of Daufuskie Island
15 Utility Company, Inc. ("DIUC" or "Company") on October 18, 2017, for the Rehearing of
16 South Carolina Public Service Commission ("PSC") Docket No. 2014-346-WS.

17 **Q. PLEASE DESCRIBE THE FINDINGS OF THE SOUTH CAROLINA SUPREME**
18 **COURT IN ITS OPINION NO. 27729 AS THEY RELATE TO ORS'S**
19 **ADJUSTMENTS.**

20 **A.** In summary, South Carolina Supreme Court Opinion No. 27729 gave guidance on
21 three issues related to ORS's adjustments:

22 1. DIUC owns the utility equipment located on the elevated tank site, and is therefore
23 entitled to include the value of this property in its rate base.

2. In adopting ORS's adjustments, the PSC disregarded DIUC's binding obligation under the settlement agreement with Beaufort County in order to conform more closely to the 2014 test year (property taxes). Also, an annual bill of \$65,856 for back taxes (property) alone is a substantial expense for which the PSC should have adjusted the test year data.

3. The PSC's decision to allow a bad debt expense of \$30,852 is unsupported by the evidence in the record.

Q. PLEASE DESCRIBE THE PROCEDURES USED TO EXAMINE THE REHEARING TESTIMONY AND EXHIBITS FILED BY DIUC AND INFORMATION PROVIDED DURING THE COURSE OF DISCOVERY.

A. ORS reviewed the South Carolina Supreme Court Opinion No. 27729. In order to comply with the Court's guidance, ORS determined that plant-in-service, property taxes and bad debt expense should be adjusted. Also, through discovery, DIUC submitted invoices to support additional rate case expenses that had been incurred since the original PSC hearing, on October 28, 2015. Based on a review of the invoices provided by the Company, ORS updated total rate case expenses and the amortization of rate case expenses. ORS also updated all "fall-out" adjustments such as depreciation expense, accumulated depreciation, taxes other than income tax, income taxes, cash working capital and interest expense for the changes to plant in service, property taxes, bad debt expense and amortization of rate case expenses. ORS prepared Revised Rehearing Audit Exhibits DFS-1 through DFS-8 based on these changes and using the Company's proposed increase in its rehearing testimony and exhibits. ORS also prepared Revised Rehearing Audit Exhibit DFS-9, which shows the revenue increase necessary, based on

ORS rehearing accounting and pro forma adjustments, to derive the PSC approved 9.28% return on equity.

Q. PLEASE IDENTIFY THE EXHIBITS ATTACHED TO YOUR TESTIMONY.

A. I have attached the following exhibits to my rehearing testimony:

- Revised Rehearing Audit Exhibit DFS-1: Operating Experience, Rate Base and Rates of Return for Combined Operations
- Revised Rehearing Audit Exhibit DFS-2: Operating Experience, Rate Base and Rates of Return for Water Operations
- Revised Rehearing Audit Exhibit DFS-3: Operating Experience, Rate Base and Rates of Return for Sewer Operations
- Revised Rehearing Audit Exhibit DFS-4: Explanation of Accounting and Pro Forma Adjustments
- Revised Rehearing Audit Exhibit DFS-5: Computation of Depreciation and Amortization Expense
- Revised Rehearing Audit Exhibit DFS-6: Computation of Income Taxes
- Revised Rehearing Audit Exhibit DFS-7: Cash Working Capital Allowance
- Revised Rehearing Audit Exhibit DFS-8: Return on Equity
- Revised Rehearing Audit Exhibit DFS-9: Schedules Supporting a 9.28% Return on Equity

These exhibits were either prepared by me or were prepared under my direction and supervision in compliance with recognized accounting and regulatory procedures for water and wastewater utility rate cases. These exhibits show various aspects of the Company's operations and financial position.

Q. PLEASE DESCRIBE THE FORMAT OF REVISED REHEARING AUDIT EXHIBIT DFS-1 AND ELABORATE ON THE CALCULATIONS.

A. Revised Rehearing Audit Exhibit DFS-1 details the Company's combined operating experience, rate base and rates of return for water and sewer operations for the test year. The exhibit's format is designed to reflect the Application per books, the accounting and pro forma adjustments resulting from the guidance given in South Carolina Supreme Court Opinion No. 27729, the ORS proposed accounting and pro forma adjustments resulting from ORS's examination of the Company's rehearing testimony, exhibits, and information provided by the Company for this rehearing, and the remaining, unaltered, proposed accounting and pro forma adjustments as included in Audit Exhibit ICG-1 necessary to normalize the results of the Company's test year operations, and calculate the impact of DIUC's rehearing proposed increase on the normalized test year.

Column (1) details the Application per books amounts reported by DIUC for the test year ended December 31, 2014.

Column (2) details ORS's accounting and pro forma adjustments based on the guidance given in South Carolina Supreme Court Opinion No. 27729, ORS's examination of the Company's rehearing testimony, exhibits, and information provided by the Company for this rehearing, and the remaining, unaltered, proposed accounting and pro forma adjustments as included in Audit Exhibit ICG-1 designed to normalize the Application per books. An explanation of each adjustment is contained in Revised Rehearing Audit Exhibit DFS-4.

Column (3) details ORS's results for a normalized test year for DIUC by adding columns (1) and (2). After the accounting and pro forma adjustments, net income for

return of (\$161,616) was computed using total operating revenues of \$1,073,577, less total operating expenses of \$1,235,193. Total rate base of \$5,867,632, produced a return on rate base of -2.75%. As shown on Revised Rehearing Audit Exhibit DFS-8, the resulting return on equity ("ROE") was -9.61%.

Column (4) details the Company's proposed increase based on its rehearing testimony and exhibits and ORS's calculation of the bad debt, taxes other than income tax, income tax and customer growth adjustments associated with the proposed increase. An explanation of each adjustment is contained in Revised Rehearing Audit Exhibit DFS-4.

Column (5) details the effect of the Company's proposed increase based on its rehearing testimony by adding columns (3) and (4). Net income for return of \$616,246 was computed using total operating revenues of \$2,255,876, less total operating expenses of \$1,641,767 plus customer growth of \$2,137. Total rate base of \$5,867,632 produced a return on rate base of 10.50%. As shown on Revised Rehearing Audit Exhibit DFS-8, the resulting ROE was 14.94%.

Q. PLEASE EXPLAIN THE ADJUSTMENTS IN REVISED REHEARING AUDIT EXHIBIT DFS-4.

A. For comparative purposes, ORS's revised rehearing accounting and pro forma adjustments based on guidance given in South Carolina Supreme Court Opinion No. 27729, and the Company's proposed adjustments for the rehearing are both presented in Revised Rehearing Audit Exhibit DFS-4.

Adjustment 1 – The Company accepted ORS's original adjustment on Audit Exhibit ICG-4 as shown on Gary C. White's Rehearing Testimony and Exhibits.

1 Adjustment 2 – The Company accepted ORS's original adjustment on Audit
2 Exhibit ICG-4 as shown on Gary C. White's Rehearing Testimony and Exhibits.

3 Adjustment 3 – The Company accepted ORS's original adjustment on Audit
4 Exhibit ICG-4 as shown on Gary C. White's Rehearing Testimony and Exhibits.

5 Adjustment 4 – ORS's operation and maintenance expense adjustments total
6 (\$31,228) and are comprised of the following:

7 Adjustment 4(a) – The Company accepted ORS's original adjustment on Audit
8 Exhibit ICG-4 as shown on Gary C. White's Rehearing Testimony and Exhibits.

9 Adjustment 4(b) – The Company accepted ORS's original adjustment on Audit
10 Exhibit ICG-4 as shown on Gary C. White's Rehearing Testimony and Exhibits.

11 Adjustment 4(c) – The Company accepted ORS's original adjustment on Audit
12 Exhibit ICG-4 as shown on Gary C. White's Rehearing Testimony and Exhibits.

13 Adjustment 4(d) – The Company accepted ORS's original adjustment on Audit
14 Exhibit ICG-4 as shown on Gary C. White's Rehearing Testimony and Exhibits.

15 Adjustment 4(e) – The Company accepted ORS's original adjustment on Audit
16 Exhibit ICG-4 as shown on Gary C. White's Rehearing Testimony and Exhibits.

17 Adjustment 4(f) – The Company accepted ORS's original adjustment on Audit
18 Exhibit ICG-4 as shown on Gary C. White's Rehearing Testimony and Exhibits.

19 Adjustment 4(g) – No change from Audit Exhibit ICG-4. ORS proposes to adjust
20 outside services for management fees to reflect the PSC approved amount of \$132,211 in
21 Docket No. 2011-229-WS. This resulted in an ORS proposed adjustment of (\$25,439) to
22 the per book amount of \$157,650. See ORS Utility Rates Department witness Dawn
23 Hipp's testimony for further details.

1 Adjustment 4(h) – The Company accepted ORS’s original adjustment on Audit
2 Exhibit ICG-4 as shown on Gary C. White’s Rehearing Testimony and Exhibits.

3 Adjustment 4(i) – The Company accepted ORS’s original adjustment on Audit
4 Exhibit ICG-4 as shown on Gary C. White’s Rehearing Testimony and Exhibits.

5 Adjustment 4(j) – ORS proposes to adjust bad debt expense. ORS computed total
6 bad debt expense of \$105,384, less the per book amount of \$105,668 for a total
7 adjustment of (\$284). This is the adjustment filed by ORS on Audit Exhibit ICG-4 and
8 complies with the guidance given by South Carolina Supreme Court Opinion No. 27729.

9 Adjustment 4(k) – The Company accepted ORS’s original adjustment on Audit
10 Exhibit ICG-4 as shown on Gary C. White’s Rehearing Testimony and Exhibits.

11 Adjustment 4(l) – The Company accepted ORS’s original adjustment on Audit
12 Exhibit ICG-4 as shown on Gary C. White’s Rehearing Testimony and Exhibits.

13 Adjustment 4(m) – The Company accepted ORS’s original adjustment on Audit
14 Exhibit ICG-4 as shown on Gary C. White’s Rehearing Testimony and Exhibits.

15 Adjustment 5 – Based on guidance from South Carolina Supreme Court Opinion
16 No. 27729, the ORS computed depreciation expense and amortization of contributions in
17 aid of construction (“CIAC”) adjustment is now \$9,488. The ORS proposed adjustment
18 to depreciation expense and amortization of CIAC on Audit Exhibit ICG-4 was (\$2,002).

19 Adjustment 5(a) - Based on guidance from South Carolina Supreme Court
20 Opinion No. 27729, ORS has adjusted the gross plant in service to include the water tank
21 and well located on the elevated tank site that were removed in Docket No. 2011-229-
22 WS. As a result, ORS computes an adjustment to depreciation expense of \$9,394, which
23 is shown on Revised Rehearing Audit Exhibit DFS-5. The ORS adjustment to annualize

depreciation on Audit Exhibit ICG-4 was (\$2,096). See the description for Adjustment 10 for further details.

Adjustment 5(b) – The Company accepted ORS’s original adjustment on Audit Exhibit ICG-4 as shown on Gary C. White’s Rehearing Testimony and Exhibits.

Adjustment 6 – Based on guidance from South Carolina Supreme Court Opinion No. 27729, ORS computed an amortization adjustment of \$27,912. The ORS proposed adjustment to amortization expense on Audit Exhibit ICG-4 was (\$42,308).

Adjustment 6(a) – ORS proposes to adjust amortization expense for rate case expenses totaling \$272,382 amortized over five (5) years. These expenses include unamortized rate case expenses of \$22,500 from the previous rate case, current rate case expenses of \$75,000 as included on Audit Exhibit ICG-4, and additional legal, bond premiums and letter of credit fees associated with the appeal of \$174,882. ORS’s amortization expense adjustment amounted to \$54,476 ($\$272,382/5$ years), less per book amount of \$ 92,421, for total adjustment of (\$37,945).

Adjustment 6(b) – Based on guidance from South Carolina Supreme Court Opinion No. 27729, ORS computed an adjustment to amortization expense for property taxes of \$526,848 amortized over eight (8) years for an annual amortization of property taxes of \$65,856. This adjustment amount agrees with the Company’s adjustment in its rehearing testimony and exhibits.

Adjustment 7 – The taxes other than income taxes adjustment of \$191,271 is comprised of the following:

Adjustment 7(a) – The Company accepted ORS’s original adjustment on Audit Exhibit ICG-4 as shown on Gary C. White’s Rehearing Testimony and Exhibits.

1 Adjustment 7(b) – Based on guidance from South Carolina Supreme Court
2 Opinion No. 27729, ORS computed an adjustment to property taxes to reflect the
3 calendar year 2015 level. Calendar year 2015 property taxes amounted to \$192,302 less
4 the per book amount of \$4,210, for an adjustment of \$188,092. This adjustment amount
5 agrees with the Company's adjustment in its rehearing testimony and exhibits.

6 Adjustment 7(c) – The Company accepted ORS's original adjustment on Audit
7 Exhibit ICG-4 as shown on Gary C. White's Rehearing Testimony and Exhibits.

8 Adjustment 8 – The Company accepted ORS's original adjustment on Audit
9 Exhibit ICG-4 as shown on Gary C. White's Rehearing Testimony and Exhibits.

10 Adjustment 9 – ORS does not propose to adjust customer growth after the
11 accounting and pro forma adjustments.

12 Adjustment 10 – Based on guidance from South Carolina Supreme Court Opinion
13 No. 27729, ORS proposes to adjust gross plant in service to include the water tank and
14 well located on the elevated tank site. In Docket No. 2011-229-WS, ORS removed
15 \$863,379 from plant in service for the elevated water storage tank and \$61,956 for a well
16 located on the elevated tank site due to ownership disputes in regards to the property.
17 The ORS adjustment to plant in service on Audit Exhibit ICG-4 was (\$1,624,696). Based
18 on the Supreme Court guidance, ORS now computes an adjustment to gross plant in
19 service of (\$699,361) which is shown on Revised Rehearing Audit Exhibit DFS-5. Audit
20 Exhibit ICG-5 showed the adjusted water total for reservoirs and standpipes as \$34,700.
21 Revised Rehearing Audit Exhibit DFS-5 includes the elevated water storage tank amount
22 of \$863,379, and shows the adjusted water total for reservoirs and standpipes as
23 \$898,079. Audit Exhibit ICG-5 showed the adjusted water total for wells as \$732,908.

1 Revised Rehearing Audit Exhibit DFS-5 includes the \$61,956 for the well removed in
2 Docket No. 2011-229-WS and shows the adjusted water total for wells as \$794,864.
3 Revised Rehearing Audit Exhibit DFS-5 reflects all other adjustments to plant-in-service
4 included on Audit Exhibit ICG-5.

5 Adjustments 11 – Based on guidance from South Carolina Supreme Court
6 Opinion No. 27729, ORS adjusted gross plant in service to include the water tank and
7 well located on the elevated tank site that were removed in Docket No. 2011-229-WS.
8 As a result, ORS now computes an adjustment to accumulated depreciation of
9 (\$180,067). The ORS adjustment to accumulated depreciation on Audit Exhibit ICG-4
10 was (\$141,198). See the description for Adjustment 10 for further details.

11 Adjustment 12 – The Company accepted ORS's original adjustment on Audit
12 Exhibit ICG-4 as shown on Gary C. White's Rehearing Testimony and Exhibits.

13 Adjustment 13 – The Company accepted ORS's original adjustment on Audit
14 Exhibit ICG-4 as shown on Gary C. White's Rehearing Testimony and Exhibits.

15 Adjustment 14 – The Company accepted ORS's original adjustment on Audit
16 Exhibit ICG-4 as shown on Gary C. White's Rehearing Testimony and Exhibits.

17 Adjustment 15 – ORS proposes to adjust cash working capital after accounting
18 and pro forma adjustments using an allowable rate of 20% (1/5 of Operating &
19 Maintenance expenses) based on the quarterly billing cycle. The formula is based on the
20 average number of days per billing cycle, plus a 30-day collection period, divided by 360
21 days ($45 + 30 / 360 = 20\%$). ORS proposes to increase cash working capital by \$87,676.
22 This is the same adjustment amount as shown on Audit Exhibit ICG-4. Details of this
23 adjustment are included in Revised Rehearing Audit Exhibit DFS-7.

1 Adjustment 16 – The Company accepted ORS’s original adjustment on Audit
2 Exhibit ICG-4 as shown on Gary C. White’s Rehearing Testimony and Exhibits.

3 Adjustment 17 – ORS proposes to synchronize allowable interest expense to reflect
4 the rate base after accounting and pro forma adjustments, using the capitalization ratio of
5 54% for equity and 46% for debt and a cost of debt of 5.29%. These are the debt, equity
6 and cost of debt percentages applied by ORS on Audit Exhibit ICG-8. ORS computed an
7 adjustment of (\$34,743), resulting in allowable interest expense of \$142,783. See Revised
8 Rehearing Audit Exhibit DFS-8 for ORS’s computation of interest expense.

9 Adjustment 18 – The Company’s rehearing proposed increase would produce
10 additional revenues of \$383,382 for residential, \$139,081 for commercial and \$108,369 for
11 irrigation for a total adjustment of \$630,832.

12 Adjustment 19 – The Company’s rehearing proposed increase would produce
13 additional revenues of \$518,553 for availability billing.

14 Adjustment 20 – The Company’s rehearing proposed increase would produce
15 additional revenues of \$32,914 for miscellaneous other revenue.

16 Adjustment 21 – Based on guidance from South Carolina Supreme Court Opinion
17 No. 27729, ORS computed an adjustment to bad debt expense for the rehearing proposed
18 increase using the methodology and percentages used to calculate the adjustment on Audit
19 Exhibit ICG-4. ORS applied a bad debt percentage of 9.82% (rounded) to the Company’s
20 rehearing proposed increase to calculate an adjustment to bad debt expense of \$116,056.

21 Adjustment 22 – ORS proposes to adjust gross receipts and utility/commission
22 taxes for the Company’s rehearing proposed increase. ORS used a factor of .00856574,

which is comprised of the PSC and ORS factor of .00556574 and the Department of Revenue's factor of .003. ORS's proposes to increase gross receipts taxes by \$10,128.

Adjustment 23 – ORS proposes to adjust income taxes for the Company's proposed increase by \$280,390. See Revised Rehearing Audit Exhibit DFS-6 for the computation of income taxes.

Adjustment 24 – ORS proposes to adjust customer growth after the proposed increase resulting in an adjustment of \$2,137. ORS used growth factors of 0.18519% for water operations and 0.48985% for sewer operations as was done on Audit Exhibit ICG-4.

**Q. PLEASE DESCRIBE REVISED REHEARING AUDIT EXHIBIT DFS-5
THROUGH REVISED REHEARING AUDIT EXHIBIT DFS-8.**

A. Revised Rehearing Audit Exhibit DFS-5 shows ORS's calculation of depreciation expense and amortization of CIAC for the Company's rehearing proposed increase. Revised Rehearing Audit Exhibit DFS-6 shows ORS's computation of income taxes for the Company's rehearing proposed increase. Revised Rehearing Audit Exhibit DFS-7 shows the calculation of the cash working capital allowance for the Company's rehearing proposed increase. Revised Rehearing Audit Exhibit DFS-8 shows the calculation of return on common equity for the Company's rehearing proposed increase.

Q. PLEASE DESCRIBE REVISED REHEARING AUDIT EXHIBIT DFS-9.

A. Revised Rehearing Audit Exhibit DFS-9 is comprised of schedules showing the revenue increase necessary, based on ORS's revised rehearing accounting and pro forma adjustments and guidance handed down from South Carolina Supreme Court Opinion No. 27729, to derive a 9.28% return on equity, as ordered by the PSC in Order No. 2015-846,

1 and is within the return on equity range recommended by ORS witness Dr. Douglas H.
2 Carlisle in his pre-filed direct testimony.

3 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

4 **A. Yes.**

Daufuskie Island Utility Company, Inc.
Docket No. 2014-346-WS
Operating Experience, Rate Base, and Rates of Return
For the Test Year Ended December 31, 2014
Combined Operations

| <u>Description</u> | (1) Application Per Books \$ | (2) Accounting & Pro Forma Adjustments \$ | (3) After Accounting & Pro Forma Adjustments \$ | (4) DIUC Rehearing Proposed Increase \$ | (5) After Proposed Increase \$ |
|--|--|--|--|--|--|
| <u>OPERATING REVENUE</u> | | | | | |
| Residential revenue | 307,239 | 4,913 1a | 312,152 | 383,382 18a | 695,534 |
| Commercial Revenue | 151,056 | (4,780) 1b | 146,276 | 139,081 18b | 285,357 |
| Irrigation Revenue | 98,309 | 883 1c | 99,192 | 108,369 18c | 207,561 |
| Availability Billing | 489,665 | (3,905) 2 | 485,760 | 518,553 19 | 1,004,313 |
| Misc. Other Revenue | 30,193 | 4 3 | 30,197 | 32,914 20 | 63,111 |
| <u>TOTAL OPERATING REVENUE</u> | 1,076,462 | (2,885) | 1,073,577 | 1,182,299 | 2,255,876 |
| <u>OPERATION AND MAINTENANCE EXPENSES</u> | | | | | |
| Operation and Maintenance Expenses | 848,818 | (31,228) 4 | 817,590 | 116,056 21 | 933,646 |
| <u>TOTAL OPERATION AND MAINTENANCE EXPENSES</u> | 848,818 | (31,228) | 817,590 | 116,056 | 933,646 |
| Depreciation and Amortization Expense | 73,072 | 9,488 5 | 82,560 | 0 | 82,560 |
| Amortization of Rate Case Expenses | 92,420 | 27,912 6 | 120,332 | 0 | 120,332 |
| Taxes Other than Income Tax Expense | 23,440 | 191,271 7 | 214,711 | 10,128 22 | 224,839 |
| Income Tax Expense | 0 | 0 8 | 0 | 280,390 23 | 280,390 |
| <u>TOTAL OPERATING EXPENSES</u> | 1,037,750 | 197,443 | 1,235,193 | 406,574 | 1,641,767 |
| <u>NET OPERATING INCOME</u> | 38,712 | (200,328) | (161,616) | 775,725 | 614,109 |
| Add: Customer Growth | 0 | 0 9 | 0 | 2,137 24 | 2,137 |
| <u>NET INCOME (LOSS) FOR RETURN</u> | 38,712 | (200,328) | (161,616) | 777,862 | 616,246 |
| <u>ORIGINAL COST RATE BASE:</u> | | | | | |
| Gross Plant in Service | 7,964,379 | (699,361) 10 | 7,265,018 | 0 | 7,265,018 |
| Accumulated Depreciation | (790,024) | (180,067) 11 | (970,091) | 0 | (970,091) |
| Construction Work In Progress (CWIP) | 254,853 | (254,853) 12 | 0 | 0 | 0 |
| Contributions in Aid of Construction | (660,295) | 0 13 | (660,295) | 0 | (660,295) |
| Accumulated Amortization of CIAC | 69,269 | 213 14 | 69,482 | 0 | 69,482 |
| Net Plant | 6,838,182 | (1,134,068) | 5,704,114 | 0 | 5,704,114 |
| Working Capital | 75,842 | 87,676 15 | 163,518 | 0 | 163,518 |
| Unamortized Balances | 0 | 0 16 | 0 | 0 | 0 |
| <u>TOTAL RATE BASE</u> | 6,914,024 | (1,046,392) | 5,867,632 | 0 | 5,867,632 |
| <u>RETURN ON RATE BASE</u> | 0.56% | | -2.75% | | 10.50% |
| <u>OPERATING MARGIN</u> | -12.90% | | -28.35% | | 20.99% |
| <u>INTEREST EXPENSE</u> | 177,526 | (34,743) 17 | 142,783 | 0 | 142,783 |

Daufuskie Island Utility Company, Inc.
Docket No. 2014-346-WS
Operating Experience, Rate Base, and Rates of Return
For the Test Year Ended December 31, 2014
Water Operations

| <u>Description</u> | (1) Application Per Books \$ | (2) Accounting & Pro Forma Adjustments \$ | (3) After Accounting & Pro Forma Adjustments \$ | (4) DIUC Rehearing Proposed Increase \$ | (5) After Proposed Increase \$ |
|--|--|--|--|--|--|
| <u>OPERATING REVENUE</u> | | | | | |
| Water Residential | 139,071 | 491 1a | 139,562 | 173,488 18a | 313,050 |
| Water Commercial | 72,479 | 432 1b | 72,911 | 58,633 18b | 131,544 |
| Water Irrigation | 98,309 | 883 1c | 99,192 | 108,369 18c | 207,561 |
| Availability Billing | 213,004 | (1,926) 2 | 211,078 | 227,804 19 | 438,882 |
| Misc. Other Revenue | 20,444 | (715) 3 | 19,729 | 22,159 20 | 41,888 |
| <u>TOTAL OPERATING REVENUE</u> | 543,307 | (835) | 542,472 | 590,453 | 1,132,922 |
| <u>WATER OPERATION AND MAINTENANCE EXPENSES</u> | | | | | |
| Operation and Maintenance Expense | 469,605 | (23,034) 4 | 446,571 | 58,409 21 | 504,980 |
| <u>TOTAL OPERATING AND MAINTENANCE EXPENSES</u> | 469,605 | (23,034) | 446,571 | 58,409 | 504,980 |
| Depreciation and Amortization Expense | 36,921 | 5,107 5 | 42,028 | 0 | 42,028 |
| Amortization of Rate Case Expenses | 46,210 | 13,956 6 | 60,166 | 0 | 60,166 |
| Taxes Other than Income Tax Expense | 11,748 | 91,473 7 | 103,221 | 5,058 22 | 108,279 |
| Income Tax Expense | 0 | 0 8 | 0 | 131,653 23 | 131,653 |
| <u>TOTAL OPERATING EXPENSES</u> | 564,484 | 87,502 | 651,986 | 195,120 | 847,106 |
| <u>NET OPERATING INCOME</u> | (21,177) | (88,337) | (109,514) | 395,333 | 285,819 |
| Add: Customer Growth | 0 | 0 9 | 0 | 529 24 | 529 |
| <u>NET INCOME (LOSS) FOR RETURN</u> | (21,177) | (88,337) | (109,514) | 395,862 | 286,348 |
| <u>ORIGINAL COST RATE BASE:</u> | | | | | |
| Gross Plant in Service | 3,899,032 | (427,689) 10 | 3,471,343 | 0 | 3,471,343 |
| Accumulated Depreciation | (382,950) | (119,596) 11 | (502,546) | 0 | (502,546) |
| Construction Work In Progress (CWIP) | 29,511 | (29,511) 12 | 0 | 0 | 0 |
| Contributions in Aid of Construction | (458,500) | 0 13 | (458,500) | 0 | (458,500) |
| Accumulated Amortization of CIAC | 51,580 | 39 14 | 51,619 | 0 | 51,619 |
| Net Plant | 3,138,673 | (576,757) | 2,561,916 | 0 | 2,561,916 |
| Working Capital | 0 | 89,314 15 | 89,314 | 0 | 89,314 |
| Unamortized Balances | 0 | 0 16 | 0 | 0 | 0 |
| <u>TOTAL RATE BASE</u> | 3,138,673 | (487,443) | 2,651,230 | 0 | 2,651,230 |
| <u>RETURN ON RATE BASE</u> | -0.67% | | -4.13% | | 10.80% |
| <u>OPERATING MARGIN</u> | -20.24% | | -32.08% | | 19.58% |
| <u>INTEREST EXPENSE</u> | 88,763 | (24,248) 17 | 64,515 | 0 | 64,515 |

Daufuskie Island Utility Company, Inc.
Docket No. 2014-346-WS
Operating Experience, Rate Base, and Rates of Return
For the Test Year Ended December 31, 2014
Sewer Operations

| <u>Description</u> | (1) Application Per Books \$ | (2) Accounting & Pro Forma Adjustments \$ | (3) After Accounting & Pro Forma Adjustments \$ | (4) DIUC Rehearing Proposed Increase \$ | (5) After Proposed Increase \$ |
|--|--|--|--|--|--|
| <u>OPERATING REVENUE</u> | | | | | |
| Sewer Residential | 168,168 | 4,422 1a | 172,590 | 209,894 18a | 382,484 |
| Sewer Commercial | 78,577 | (5,212) 1b | 73,365 | 80,448 18b | 153,813 |
| Sewer Irrigation | 0 | 0 1c | 0 | 0 18c | 0 |
| Availability Billing | 276,661 | (1,979) 2 | 274,682 | 290,749 19 | 565,431 |
| Misc. Other Revenue | 9,749 | 719 3 | 10,468 | 10,755 20 | 21,223 |
| <u>TOTAL OPERATING REVENUE</u> | 533,155 | (2,050) | 531,105 | 591,846 | 1,122,951 |
| <u>SEWER OPERATION AND MAINTENANCE EXPENSES</u> | | | | | |
| Operation and Maintenance Expense | 379,213 | (8,194) 4 | 371,019 | 57,647 21 | 428,666 |
| <u>TOTAL OPERATING AND MAINTENANCE EXPENSES</u> | 379,213 | (8,194) | 371,019 | 57,647 | 428,666 |
| Depreciation and Amortization Expense | 36,151 | 4,381 5 | 40,532 | 0 | 40,532 |
| Amortization of Rate Case Expenses | 46,210 | 13,956 6 | 60,166 | 0 | 60,166 |
| Taxes Other than Income Tax Expense | 11,692 | 99,798 7 | 111,490 | 5,070 22 | 116,560 |
| Income Tax Expense | 0 | 0 8 | 0 | 148,737 23 | 148,737 |
| <u>TOTAL OPERATING EXPENSES</u> | 473,266 | 109,941 | 583,207 | 211,454 | 794,661 |
| <u>NET OPERATING INCOME</u> | 59,889 | (111,991) | (52,102) | 380,392 | 328,290 |
| Add: Customer Growth | 0 | 0 9 | 0 | 1,608 24 | 1,608 |
| <u>NET INCOME (LOSS) FOR RETURN</u> | 59,889 | (111,991) | (52,102) | 382,000 | 329,898 |
| <u>ORIGINAL COST RATE BASE:</u> | | | | | |
| Gross Plant in Service | 4,065,347 | (271,672) 10 | 3,793,675 | 0 | 3,793,675 |
| Accumulated Depreciation | (407,074) | (60,471) 11 | (467,545) | 0 | (467,545) |
| Construction Work In Progress (CWIP) | 225,342 | (225,342) 12 | 0 | 0 | 0 |
| Contributions in Aid of Construction | (201,795) | 0 13 | (201,795) | 0 | (201,795) |
| Accumulated Amortization of CIAC | 17,689 | 174 14 | 17,863 | 0 | 17,863 |
| Net Plant | 3,699,509 | (557,311) | 3,142,198 | 0 | 3,142,198 |
| Working Capital | 75,842 | (1,638) 15 | 74,204 | 0 | 74,204 |
| Unamortized Balances | 0 | 0 16 | 0 | 0 | 0 |
| <u>TOTAL RATE BASE</u> | 3,775,351 | (558,949) | 3,216,402 | 0 | 3,216,402 |
| <u>RETURN ON RATE BASE</u> | 1.59% | | -1.62% | | 10.26% |
| <u>OPERATING MARGIN</u> | -5.42% | | -24.55% | | 22.41% |
| <u>INTEREST EXPENSE</u> | 88,763 | (10,495) 17 | 78,268 | 0 | 78,268 |

Daufuskie Island Utility Company, Inc.
Docket No. 2014-346-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2014

| Description | DIUC ORS | | \$ Combined Operations | \$ Water Operations | \$ Sewer Operations | |
|---|----------|------|---|---------------------------|---------------------------|---------|
| | Adj. | Adj. | | | | |
| <u>Accounting and Pro forma Adjustments</u> | | | | | | |
| <u>(1) Service Revenues</u> | | | | | | |
| Residential | (1a) | 1a | ORS and the Company propose to adjust residential revenue to reflect the pro forma number of customers at present rates. | | | |
| | | | Per ORS | 4,913 | 491 | 4,422 |
| | | | Per DIUC | 4,913 | 491 | 4,422 |
| Commercial | (1c) | 1b | ORS and the Company propose to adjust commercial revenue to reflect the pro forma number of customers at present rates. | | | |
| | | | Per ORS | (4,780) | 432 | (5,212) |
| | | | Per DIUC | (4,780) | 432 | (5,212) |
| Irrigation | (1e) | 1c | ORS and the Company propose to adjust irrigation revenue to reflect the pro forma demand at present rates. | | | |
| | | | Per ORS | 883 | 883 | 0 |
| | | | Per DIUC | 883 | 883 | 0 |
| <u>(1) Total Service Revenues</u> | | | <u>1,016</u> | <u>1,806</u> | <u>(790)</u> | |
| <u>(2) Availability Billing Revenue</u> | | | | | | |
| Availability Billing | (1g) | 2 | ORS and the Company propose to adjust availability revenue to reflect the pro forma number of customers at present rates. | | | |
| | | | Per ORS | (3,905) | (1,926) | (1,979) |
| | | | Per DIUC | (3,905) | (1,926) | (1,979) |
| <u>(2) Total Availability Billing Revenue</u> | | | <u>(3,905)</u> | <u>(1,926)</u> | <u>(1,979)</u> | |
| <u>(3) Miscellaneous Other Revenue</u> | | | | | | |
| Miscellaneous Other Revenue | (1g, 1i) | 3 | ORS and the Company propose to adjust miscellaneous revenues to reflect the pro forma number of customers at present rates. | | | |
| | | | Per ORS | 4 | (715) | 719 |
| | | | Per DIUC | 4 | (715) | 719 |
| <u>(3) Total Miscellaneous Other Revenue</u> | | | <u>4</u> | <u>(715)</u> | <u>719</u> | |

Daufuskie Island Utility Company, Inc.
Docket No. 2014-346-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2014

| Description | DIUC ORS | | \$ Combined Operations | \$ Water Operations | \$ Sewer Operations |
|--|----------|------|---|---------------------------|---------------------------|
| | Adj. | Adj. | | | |
| (4) <u>Operation & Maintenance Expenses</u> | | | | | |
| Wages | (2) | 4a | ORS and the Company propose to annualize salary expense. | | |
| | | | Per ORS | 19,988 | 9,994 |
| | | | Per DIUC | 19,988 | 9,994 |
| Benefits | (3) | 4b | ORS and the Company propose to annualize employee benefits. | | |
| | | | Per ORS | (2,780) | (1,390) |
| | | | Per DIUC | (2,780) | (1,390) |
| Officer & Director Fees | (4) | 4c | ORS and the Company do not propose to adjust Directors' Fees to reflect annual Officer's fees of \$12,000 and Directors' fees of \$4,500. These fees were already included in the per book amounts. | | |
| | | | Per ORS | 0 | 0 |
| | | | Per DIUC | 0 | 0 |
| Power | (5) | 4d | ORS and the Company propose to adjust for the most recent 12 months of power expenses. | | |
| | | | Per ORS | 14,744 | 7,372 |
| | | | Per DIUC | 14,744 | 7,372 |
| Chemicals | (6) | 4e | ORS and the Company do not propose to adjust for increased demand. | | |
| | | | Per ORS | 0 | 0 |
| | | | Per DIUC | 0 | 0 |
| Supplies & Maintenance | (7) | 4f | ORS and the Company propose to adjust supplies and maintenance for undocumented expense. ORS and the Company do not propose to adjust for an increase in customers in this adjustment. | | |
| | | | Per ORS | (21) | 0 |
| | | | Per DIUC | (21) | 0 |
| Outside Services - Mgmt. | (8) | 4g | ORS proposes to adjust outside management services to reflect the PSC approved amount in Docket No. 2011-229-WS. | | |
| | | | Per ORS | (25,439) | (12,720) |
| | | | Per DIUC | 13,714 | 6,857 |

Daufuskie Island Utility Company, Inc.
Docket No. 2014-346-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2014

| Description | DIUC ORS Adj. Adj. | | | \$ Combined Operations | \$ Water Operations | \$ Sewer Operations |
|--|-----------------------|----|---|------------------------------|---------------------------|---------------------------|
| Outside Services - Engineering | (9) | 4h | ORS and the Company do not propose to adjust outside services-engineering to reflect a 4-year average cost. | | | |
| | | | Per ORS | 0 | 0 | 0 |
| | | | Per DIUC | 0 | 0 | 0 |
| Transportation | (10) | 4i | ORS and the Company do not propose to adjust transportation cost for an increase in employees. | | | |
| | | | Per ORS | 0 | 0 | 0 |
| | | | Per DIUC | 0 | 0 | 0 |
| Bad Debt | (11) | 4j | ORS proposes to adjust bad debt expense to reflect test period revenue write-off percentages applied to ORS pro forma revenue under present rates. ORS adjustment amount agrees to Audit Exhibit ICG-4. | | | |
| | | | Per ORS | (284) | (36) | (248) |
| | | | Per DIUC | 2,681 | 1,446 | 1,235 |
| Insurance | (12) | 4k | ORS and the Company propose to adjust insurance to reflect the most recent actual bills. | | | |
| | | | Per ORS | 8,706 | 1,258 | 7,448 |
| | | | Per DIUC | 8,706 | 1,258 | 7,448 |
| Regulatory Expense (DHEC) | (13) | 4l | ORS and the Company propose to adjust regulatory expense to reflect the most recent DHEC drinking water bills and land permits. | | | |
| | | | Per ORS | (109) | 2,645 | (2,754) |
| | | | Per DIUC | (109) | 2,645 | (2,754) |
| Nonallowable Expense | | 4m | ORS and the Company propose to remove nonallowable expenses for ratemaking purposes. Additionally, test year Rate Case expenses were removed and amortized in adjustment 6a. | | | |
| | | | Per ORS | (46,033) | (30,136) | (15,897) |
| | | | Per DIUC | (46,033) | (30,136) | (15,897) |
| (4) <u>Total Operation & Maintenance Expenses</u> | | | | <u>(31,228)</u> | <u>(23,034)</u> | <u>(8,194)</u> |

Daufuskie Island Utility Company, Inc.
Docket No. 2014-346-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2014

| Description | DIUC | ORS | | \$ Combined Operations | \$ Water Operations | \$ Sewer Operations |
|---|------|------|---|------------------------------|---------------------------|---------------------------|
| | Adj. | Adj. | | | | |
| (5) Depreciation Expense and Amortization of Contributions In Aid of Construction ("CIAC") | | | | | | |
| Depreciation Expense | (14) | 5a | To adjust annual depreciation for pro forma plant in service. See Revised Rehearing Audit Exhibit DFS-5. | | | |
| | | | Per ORS | 9,394 | 5,134 | 4,260 |
| | | | Per DIUC | 28,367 | 9,525 | 18,842 |
| Amortization of CIAC | (14) | 5b | To adjust for amortization of CIAC. See Revised Rehearing Audit Exhibit DFS-5. | | | |
| | | | Per ORS | 94 | (27) | 121 |
| | | | Per DIUC | (5,899) | (4,326) | (1,573) |
| (5) Total Depreciation Expense and Amortization of CIAC | | | | <u>9,488</u> | <u>5,107</u> | <u>4,381</u> |
| (6) Amortization Expense | | | | | | |
| Rate Case Amortization Expense | (15) | 6a | To adjust for the 5-year amortization of rate case expenses and include unamortized rate case expenses from the previous rate case. | | | |
| | | | Per ORS | (37,944) | (18,972) | (18,972) |
| | | | Per DIUC | 192,576 | 96,288 | 96,288 |
| Property Tax Amortization Expense | (15) | 6b | ORS and the Company propose to adjust for property tax amortization over 8 years. | | | |
| | | | Per ORS | 65,856 | 32,928 | 32,928 |
| | | | Per DIUC | 65,856 | 32,928 | 32,928 |
| (6) Total Amortization Expense | | | | <u>27,912</u> | <u>13,956</u> | <u>13,956</u> |
| (7) Taxes Other Than Income Tax Expense | | | | | | |
| Revenue Taxes | (16) | 7a | ORS and the Company propose to reflect gross receipts on ORS's pro forma revenue under present rates. | | | |
| | | | Per ORS | 3,148 | 1,595 | 1,553 |
| | | | Per DIUC | 3,148 | 1,595 | 1,553 |
| Property Taxes | (17) | 7b | ORS and the Company propose to adjust property taxes to reflect actual tax bills for property owned by DIUC. | | | |
| | | | Per ORS | 188,093 | 89,863 | 98,230 |
| | | | Per DIUC | 188,093 | 89,863 | 98,230 |

Daufuskie Island Utility Company, Inc.
Docket No. 2014-346-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2014

| Description | DIUC | ORS | | \$ Combined Operations | \$ Water Operations | \$ Sewer Operations |
|---|------|------|--|------------------------------|---------------------------|---------------------------|
| | Adj. | Adj. | | | | |
| Payroll Taxes | (18) | 7c | ORS and the Company propose to adjust payroll taxes to reflect pro forma wages. | | | |
| | | | Per ORS | 30 | 15 | 15 |
| | | | Per DIUC | 30 | 15 | 15 |
| (7) <u>Total Taxes Other Than Income Tax Expense</u> | | | | <u>191,271</u> | <u>91,473</u> | <u>99,798</u> |
| (8) <u>Income Tax Expense</u> | | | | | | |
| Income Taxes - State and Federal | (19) | 8 | ORS and the Company do not propose to adjust for State and Federal Income Taxes after accounting and pro forma adjustments. See Revised Rehearing Audit Exhibit DFS-6. | | | |
| | | | Per ORS | 0 | 0 | 0 |
| | | | Per DIUC | 0 | 0 | 0 |
| (8) <u>Total Income Tax Expense</u> | | | | <u>0</u> | <u>0</u> | <u>0</u> |
| (9) <u>Customer Growth</u> | | | | | | |
| | | 9 | ORS and the Company do not propose to adjust for customer growth after the accounting and pro forma adjustments. | | | |
| | | | Per ORS | 0 | 0 | 0 |
| | | | Per DIUC | 0 | 0 | 0 |
| (9) <u>Total Customer Growth</u> | | | | <u>0</u> | <u>0</u> | <u>0</u> |
| <u>Rate Base (RB)</u> | | | | | | |
| (10) <u>Plant in Service</u> | | | | | | |
| Plant in Service | RB1 | 10 | To include the elevated water storage tank and well located on the elevated tank site and reflect all other adjustments to plant in service as included on Audit Exhibit ICG-5. See Revised Rehearing Audit Exhibit DFS-5. | | | |
| | | | Per ORS | (699,361) | (427,689) | (271,672) |
| | | | Per DIUC | 174,882 | 50,925 | 123,957 |
| (10) <u>Total Plant in Service</u> | | | | <u>(699,361)</u> | <u>(427,689)</u> | <u>(271,672)</u> |

Daufuskie Island Utility Company, Inc.
Docket No. 2014-346-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2014

| Description | DIUC | ORS | | \$ Combined Operations | \$ Water Operations | \$ Sewer Operations |
|--|------|-----|--|------------------------------|---------------------------|---------------------------|
| Adj. | Adj. | | | | | |
| (11) Accumulated Depreciation | | | | | | |
| Accumulated Depreciation | RB2 | 11 | To adjust accumulated depreciation to include the elevated water storage tank and well located on the elevated tank site and reflect all other adjustments to plant in service as included on Audit Exhibit ICG-5. | | | |
| | | | Per ORS | (180,067) | (119,596) | (60,471) |
| | | | Per DIUC | 12,170 | (46,446) | 58,616 |
| (11) Total Accumulated Depreciation | | | | <u>(180,067)</u> | <u>(119,596)</u> | <u>(60,471)</u> |
| (12) Construction Work in Progress (CWIP) | | | | | | |
| Construction Work in Progress(CWIP) | RB3 | 12 | ORS and the Company propose to adjust CWIP to move completed projects to plant in service. | | | |
| | | | Per ORS | (254,853) | (29,511) | (225,342) |
| | | | Per DIUC | (254,853) | (29,511) | (225,342) |
| (12) Total CWIP | | | | <u>(254,853)</u> | <u>(29,511)</u> | <u>(225,342)</u> |
| (13) CIAC | | | | | | |
| Contributions in Aid of Construction (CIAC) | RB4 | 13 | ORS and the Company do not propose to adjust CIAC for customer growth. | | | |
| | | | Per ORS | 0 | 0 | 0 |
| | | | Per DIUC | 0 | 0 | 0 |
| (13) Total CIAC | | | | <u>0</u> | <u>0</u> | <u>0</u> |
| (14) Accumulated Amortization of CIAC | | | | | | |
| Accumulated Amortization of CIAC | RB5 | 14 | To include amortization expense in accumulated CIAC. | | | |
| | | | Per ORS | 213 | 39 | 174 |
| | | | Per DIUC | 6,073 | 4,326 | 1,747 |
| (14) Total Accumulated Amortization of CIAC | | | | <u>213</u> | <u>39</u> | <u>174</u> |

Daufuskie Island Utility Company, Inc.
Docket No. 2014-346-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2014

| Description | DIUC Adj. | ORS Adj. | | \$ Combined Operations | \$ Water Operations | \$ Sewer Operations |
|--|--------------|-------------|---|------------------------------|---------------------------|---------------------------|
| (15) <u>Cash Working Capital</u> | | | | | | |
| Cash Working Capital (1/5 O&M) | RB6 | 15 | To adjust cash working capital after ORS accounting and pro forma adjustments. See Revised Rehearing Audit Exhibit DFS-7. | | | |
| | | | Per ORS | 87,676 | 89,314 | (1,638) |
| | | | Per DIUC | 198,787 | 106,878 | 91,909 |
| (15) <u>Total Cash Working Capital</u> | | | | 87,676 | 89,314 | (1,638) |
| (16) <u>Unamortized Balances</u> | | | | | | |
| Unamortized Balances | RB7 | 16 | ORS and the Company do not propose to include the unamortized balance of rate case expense in rate base. | | | |
| | | | Per ORS | 0 | 0 | 0 |
| | | | Per DIUC | 0 | 0 | 0 |
| (16) <u>Total Unamortized Balances</u> | | | | 0 | 0 | 0 |
| (17) <u>Interest Expense</u> | | | | | | |
| Interest Expense | | 17 | To adjust the interest expense on long-term debt for accounting and pro forma adjustments. | | | |
| | | | Per ORS | (34,743) | (24,248) | (10,495) |
| | | | Per DIUC | 38,009 | 10,885 | 27,124 |
| (17) <u>Total Interest Expense</u> | | | | (34,743) | (24,248) | (10,495) |
| <u>DIUC Rehearing Proposed Increase</u> | | | | | | |
| (18) <u>Service Revenues</u> | | | | | | |
| Residential | (1b) | 18a | To adjust residential revenue to reflect the pro forma number of customers at DIUC proposed rehearing rates. | | | |
| | | | Per ORS | 383,382 | 173,488 | 209,894 |
| | | | Per DIUC | 383,382 | 173,488 | 209,894 |
| Commercial | (1d) | 18b | To adjust commercial revenue to reflect the pro forma number of customers at DIUC proposed rehearing rates. | | | |
| | | | Per ORS | 139,081 | 58,633 | 80,448 |
| | | | Per DIUC | 139,081 | 58,633 | 80,448 |

Daufuskie Island Utility Company, Inc.
Docket No. 2014-346-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2014

| Description | DIUC Adj. | ORS Adj. | | \$ Combined Operations | \$ Water Operations | \$ Sewer Operations |
|---|--------------|-------------|--|------------------------------|---------------------------|---------------------------|
| Irrigation | (1f) | 18c | To adjust irrigation revenue to reflect the pro forma number of customers at DIUC proposed rehearing rates. | | | |
| | | | Per ORS | 108,369 | 108,369 | 0 |
| | | | Per DIUC | 108,369 | 108,369 | 0 |
| (18) Total Service Revenues | | | | 630,832 | 340,490 | 290,342 |
| (19) Availability Billing Revenue | | | | | | |
| Availability Billing | (1f, 1h) | 19 | To adjust availability revenue to reflect the pro forma number of customers at DIUC proposed rehearing rates. | | | |
| | | | Per ORS | 518,553 | 227,804 | 290,749 |
| | | | Per DIUC | 518,553 | 227,804 | 290,749 |
| (19) Total Availability Billing Revenue | | | | 518,553 | 227,804 | 290,749 |
| (20) Miscellaneous Other Revenue | | | | | | |
| Miscellaneous Other Revenue | (1h, 1j) | 20 | To adjust miscellaneous revenues to reflect pro forma number of customers at DIUC proposed rehearing rates. | | | |
| | | | Per ORS | 32,914 | 22,159 | 10,755 |
| | | | Per DIUC | 32,914 | 22,159 | 10,755 |
| (20) Total Miscellaneous Other Revenue | | | | 32,914 | 22,159 | 10,755 |
| (21) Operating Expenses | | | | | | |
| Bad Debt | (20) | 21 | To adjust bad debt expense for DIUC proposed rehearing proposed revenues using the methodology and percentages to calculate the adjustment on Audit Exhibit ICG-4. | | | |
| | | | Per ORS | 116,056 | 58,409 | 57,647 |
| | | | Per DIUC | 134,233 | 66,765 | 67,468 |
| (21) Total Operating Expenses | | | | 116,056 | 58,409 | 57,647 |
| (22) Taxes Other than Income Taxes | | | | | | |
| Revenue Taxes | (21) | 22 | To adjust gross receipts to reflect DIUC rehearing proposed revenue. | | | |
| | | | Per ORS | 10,128 | 5,058 | 5,070 |
| | | | Per DIUC | 11,557 | 5,722 | 5,835 |
| (22) Total Taxes Other than Income Taxes | | | | 10,128 | 5,058 | 5,070 |

Daufuskie Island Utility Company, Inc.
Docket No. 2014-346-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2014

| Description | DIUC ORS Adj. Adj. | \$ Combined Operations | \$ Water Operations | \$ Sewer Operations |
|---|-----------------------|--|---------------------------|---------------------------|
| (23) <u>Income Tax Expense</u> | | | | |
| State and Federal Income Taxes | (22) 23 | To adjust State and Federal income taxes for the DIUC rehearing proposed increase. See Revised Rehearing Audit Exhibit DFS-6. | | |
| | | Per ORS | 280,390 | 131,653 |
| | | Per DIUC | 201,667 | 93,236 |
| | | <u>280,390</u> | <u>131,653</u> | <u>148,737</u> |
| (23) <u>Total Income Tax Expense</u> | | | | |
| | | <u>280,390</u> | <u>131,653</u> | <u>148,737</u> |
| (24) <u>Customer Growth</u> | | | | |
| | 24 | To adjust for customer growth for the DIUC rehearing proposed increase. ORS used the growth factors of 0.18519% for water and 0.48985% for sewer as was done on Audit Exhibit ICG-4. | | |
| | | Per ORS | 2,137 | 529 |
| | | Per DIUC | 0 | 0 |
| | | <u>2,137</u> | <u>529</u> | <u>1,608</u> |
| (24) <u>Total Customer Growth</u> | | | | |
| | | <u>2,137</u> | <u>529</u> | <u>1,608</u> |

Daufuskie Island Utility Company, Inc.
Docket No. 2014-346-WS
Computation of Depreciation and Amortization Expense
For the Test Year Ended December 31, 2014

Depreciation Expense Adjustment

| Description | Plant Balance 12/31/14 | ORS Adjustment | Water Total | Service life | Dep. Rate | Utilization Factor | 2014 Depr. Expense | Less: Per Books | ORS Adjustment |
|-------------------------|---------------------------|----------------|--------------|--------------|-----------|-----------------------|-----------------------|--------------------|-------------------|
| Organizational Costs | \$ 73,597 | \$ (73,597) | \$ - | | | | | | |
| Land & Land Rights | \$ 56,702 | \$ (56,702) | \$ - | | | | | | |
| General Plant | | | \$ 17,547 | 6 | 16.67% | 100.00% | \$ 2,925 | | |
| General Plant | | | \$ 597 | 15 | 6.67% | 100.00% | \$ 40 | | |
| General Plant | | | \$ 5,143 | 16 | 6.25% | 100.00% | \$ 321 | | |
| General Plant | | | \$ 22,175 | 40 | 2.50% | 100.00% | \$ 554 | | |
| Total General Plant | \$ 59,599 | \$ (14,137) | \$ 45,462 | | | | | | |
| Other Intangible Plant | \$ 404 | \$ - | \$ 404 | 10 | 10.00% | 100.00% | \$ 40 | | |
| Meters | \$ 8,786 | \$ 1,718 | \$ 10,504 | 20 | 5.00% | 45.28% | \$ 238 | | |
| Pumping | \$ 61,307 | \$ (24,605) | \$ 36,702 | 20 | 5.00% | 45.28% | \$ 831 | | |
| Reservoirs & Standpipes | \$ 907,325 | \$ (9,246) | \$ 898,079 | 37 | 2.70% | 45.28% | \$ 10,980 | | |
| Storage | \$ 81,907 | \$ (75,907) | \$ 6,000 | 37 | 2.70% | 45.28% | \$ 73 | | |
| Treatment | | | \$ 4,816 | 30 | 3.33% | 45.28% | \$ 73 | | |
| Treatment | | | \$ 234,776 | 32 | 3.13% | 45.28% | \$ 3,327 | | |
| Total Treatment | \$ 321,643 | \$ (82,051) | \$ 239,592 | | | | | | |
| Water & Sewer Mains | \$ 1,509,687 | \$ (91,176) | \$ 1,418,511 | 45 | 2.22% | 45.28% | \$ 14,259 | | |
| Wells | \$ 794,864 | \$ - | \$ 794,864 | 30 | 3.33% | 45.28% | \$ 11,985 | | |
| Well Site | \$ 23,211 | \$ (1,986) | \$ 21,225 | 18 | 5.56% | 45.28% | \$ 534 | | |
| Total | \$ 3,899,032 | \$ (427,689) | \$ 3,471,343 | | | | \$ 46,180 | 41,046 | 5,134 |

| Description | Plant Balance 12/31/14 | ORS Adjustment | Wastewater Total | Service life | Dep. Rate | Utilization Factor | 2014 Depr. Expense | Less: Per Books | ORS Adjustment |
|----------------------------|---------------------------|----------------|------------------|--------------|-----------|-----------------------|-----------------------|--------------------|-------------------|
| Organizational Costs | \$ 73,597 | \$ (73,597) | \$ - | | | | | | |
| Land & Land Rights | \$ 63,710 | \$ (63,710) | \$ - | | | | | | |
| General Plant | | | \$ 17,547 | 6 | 16.67% | 100.00% | \$ 2,925 | | |
| General Plant | | | \$ 597 | 15 | 6.67% | 100.00% | \$ 40 | | |
| General Plant | | | \$ 4,780 | 16 | 6.25% | 100.00% | \$ 299 | | |
| General Plant | | | \$ 4,592 | 18 | 5.56% | 100.00% | \$ 255 | | |
| General Plant | | | \$ 22,175 | 40 | 2.50% | 100.00% | \$ 554 | | |
| Total General Plant | \$ 54,868 | \$ (5,177) | \$ 49,691 | | | | | | |
| Other Intangible Plant | \$ 204 | \$ - | \$ 204 | 10 | 10.00% | 100.00% | \$ 20 | | |
| Power Generation Equipment | \$ 4,632 | \$ 4,514 | \$ 9,146 | 20 | 5.00% | 33.88% | \$ 155 | | |
| Pumping | | | \$ 85,323 | 18 | 5.56% | 33.88% | \$ 1,607 | | |
| Pumping | | | \$ 53,027 | 25 | 4.00% | 33.88% | \$ 719 | | |
| Total Pumping | \$ 158,189 | \$ (19,839) | \$ 138,350 | | | | | | |
| T&D Equipment | | | \$ 29,163 | 15 | 6.67% | 33.88% | \$ 659 | | |
| T&D Equipment | | | \$ 4,114 | 18 | 5.56% | 33.88% | \$ 77 | | |
| T&D Equipment | | | \$ 380,128 | 32 | 3.13% | 33.88% | \$ 4,031 | | |
| Total T&D Equipment | \$ 417,412 | \$ (4,007) | \$ 413,405 | | | | | | |
| Treatment | | | \$ 3,600 | 15 | 6.67% | 33.88% | \$ 81 | | |
| Treatment | | | \$ 91,380 | 18 | 5.56% | 33.88% | \$ 1,721 | | |
| Treatment | | | \$ 121,491 | 32 | 3.13% | 33.88% | \$ 1,288 | | |
| Total Treatment | \$ 289,565 | \$ (73,094) | \$ 216,471 | | | | | | |
| Water & Sewer Mains | \$ 2,118,279 | \$ (36,762) | \$ 2,081,517 | 45 | 2.22% | 33.88% | \$ 15,656 | | |
| Outfall Main | \$ 66,704 | \$ - | \$ 66,704 | 30 | 3.33% | 33.88% | \$ 753 | | |
| WW Treatment Plant | \$ 818,187 | \$ - | \$ 818,187 | 32 | 3.13% | 33.88% | \$ 8,676 | | |
| Total | \$ 4,065,347 | \$ (271,672) | \$ 3,793,675 | | | | \$ 39,516 | 35,256 | 4,260 |
| Total Water/Wastewater | \$ 7,964,379 | \$ (699,361) | \$ 7,265,018 | | | | \$ 85,696 | \$ 76,302 | \$ 9,394 |

Amortization of CIAC

| Description | Per Books | Adjustment | W/WW Total | Service life | Dep. Rate | Utilization Factor | 2014 Amort. Expense | Less: Per Books | ORS Adjustment |
|--------------------------------|--------------|------------|--------------|--------------|-----------|-----------------------|------------------------|--------------------|-------------------|
| Water - CIAC @12/31/2014 | \$ (458,500) | \$ - | \$ (458,500) | 50 | 2.00% | 45.28% | (4,152) | (4,125) | (27) |
| Wastewater - CIAC @ 12/31/2014 | \$ (201,795) | \$ - | \$ (201,795) | 50 | 2.00% | 33.88% | (1,367) | (1,488) | 121 |
| Total Water/Wastewater CIAC | \$ (660,295) | \$ - | \$ (660,295) | | | | \$ (5,519) | \$ (5,613) | \$ 94 |

- Reservoirs & Standpipes water total per Audit Exhibit ICG-5 was \$34,700. Water total of \$898,079 above with inclusion of elevated storage tank of \$863,379.
- Wells water total per Audit Exhibit ICG-5 was \$732,908. Water total of \$794,864 above with inclusion of elevated tank site well of \$61,956.

Daufuskie Island Utility Company, Inc.
Docket No. 2014-346-WS
Computation of Income Taxes
For the Test Year Ended December 31, 2014

| After Accounting & Pro Forma Adjustments | | | |
|---|---------------------------------------|------------------------------------|------------------------------------|
| Description | \$ Combined Operations | \$ Water Operations | \$ Sewer Operations |
| Operating Revenues | 1,073,577 | 542,472 | 531,105 |
| Operating Expenses | 1,235,193 | 651,986 | 583,207 |
| Net Operating Income Before Taxes | (161,616) | (109,514) | (52,102) |
| Less: Annualized Interest Expense | 142,783 | 64,515 | 78,268 |
| Taxable Income - State | (304,399) | (174,029) | (130,370) |
| State Taxable Income | 5% | 5% | 5% |
| State Income Taxes (Note) | (15,220) | (8,701) | (6,519) |
| Less: State Income Taxes Per Book | 0 | 0 | 0 |
| Adjustment to State Income Taxes | 0 | 0 | 0 |
| Taxable Income - Federal (Note) | (289,179) | (165,327) | (123,852) |
| Federal Income Tax @ 34% | (98,321) | (56,211) | (42,110) |
| Less: Federal Income Taxes Per Book | 0 | 0 | 0 |
| Adjustment to Federal Income Taxes | 0 | 0 | 0 |
| Total Adjustment to Income Taxes (Note) | 0 | 0 | 0 |
| After DIUC Rehearing Proposed Increase | | | |
| Description | \$ Combined Operations | \$ Water Operations | \$ Sewer Operations |
| Operating Revenues | 2,255,876 | 1,132,925 | 1,122,951 |
| Operating Expenses | 1,361,377 | 715,453 | 645,924 |
| Net Operating Income Before Taxes | 894,499 | 417,472 | 477,027 |
| Less: Annualized Interest Expense | 142,783 | 64,515 | 78,268 |
| Taxable Income - State | 751,716 | 352,957 | 398,759 |
| State Taxable Income | 5% | 5% | 5% |
| State Income Taxes | 37,586 | 17,648 | 19,938 |
| Less: State Income Taxes Per Book | 0 | 0 | 0 |
| Adjustment to State Income Taxes | 37,586 | 17,648 | 19,938 |
| Taxable Income - Federal | 714,130 | 335,309 | 378,821 |
| Federal Income Tax @ 34% | 242,804 | 114,005 | 128,799 |
| Less: Federal Income Taxes Per Book | 0 | 0 | 0 |
| Adjustment to Federal Income Taxes | 242,804 | 114,005 | 128,799 |
| Total Adjustment to Income Taxes | 280,390 | 131,653 | 148,737 |

Note: Taxable income is based on the calculation of net operating income before taxes less annualized interest expense. Since this amount is negative after accounting and pro forma adjustments, there are no income taxes as shown on Revised Rehearing Audit Exhibits DFS-1, DFS-2 and DFS-3, Column 3.

Daufuskie Island Utility Company, Inc.
Docket No. 2014-346-WS
Cash Working Capital Allowance
For the Test Year Ended December 31, 2014

After Accounting & Pro Forma Adjustments

| Description | \$ Combined Operations | \$ Water Operations | \$ Sewer Operations |
|--|---------------------------------------|------------------------------------|------------------------------------|
| Total Expenses for Computation | 817,590 | 446,571 | 371,019 |
| Allowable Rate (1/5 O&M) | <u>20.00%</u> | <u>20.00%</u> | <u>20.00%</u> |
| Computed Cash Working Capital | 163,518 | 89,314 | 74,204 |
| Cash Working Capital - Application Per Books | <u>75,842</u> | <u>0</u> | <u>75,842</u> |
| Cash Working Capital Adjustment - ORS Accounting & Pro Forma Adjustment | <u>87,676</u> | <u>89,314</u> | <u>(1,638)</u> |

Daufuskie Island Utility Company, Inc.
Docket No. 2014-346-WS
Return on Equity
For the Test Year Ended December 31, 2014

Combined Operations

| Description | Capital Structure | Ratio | Application Per Books (Note 1) | | | | After Accounting and Pro forma Adjustments | | | | After DIUC Rehearing Proposed Increase | | | |
|----------------|-------------------|---------|--------------------------------|----------------------|---------------------|-------------------|--|----------------------|---------------------|-------------------|--|----------------------|---------------------|-------------------|
| | | | Rate Base | Embedded Cost/Return | Overall Cost/Return | Income For Return | Rate Base | Embedded Cost/Return | Overall Cost/Return | Income For Return | Rate Base | Embedded Cost/Return | Overall Cost/Return | Income For Return |
| Long-Term Debt | \$ 2,750,000 | 46.0% | \$ 3,180,451 | 5.29% | 2.43% | \$ 168,246 | \$ 2,699,111 | 5.29% | 2.43% | \$ 142,783 | \$ 2,699,111 | 5.29% | 2.43% | \$ 142,783 |
| Common Equity | 5,358,573 | 54.0% | 3,733,573 | -3.47% | -1.87% | (129,534) | 3,168,521 | -9.61% | -5.19% | (304,399) | 3,168,521 | 14.94% | 8.07% | 473,463 |
| Totals | \$ 8,108,573 | 100.00% | \$ 6,914,024 | | 0.56% | \$ 38,712 | \$ 5,867,632 | | -2.76% | \$ (161,616) | \$ 5,867,632 | | 10.50% | \$ 616,246 |

Water Operations

| Description | Capital Structure | Ratio | Application Per Books (Note 1) | | | | After Accounting and Pro forma Adjustments | | | | After DIUC Rehearing Proposed Increase | | | |
|----------------|-------------------|---------|--------------------------------|----------------------|---------------------|-------------------|--|----------------------|---------------------|-------------------|--|----------------------|---------------------|-------------------|
| | | | Rate Base | Embedded Cost/Return | Overall Cost/Return | Income For Return | Rate Base | Embedded Cost/Return | Overall Cost/Return | Income For Return | Rate Base | Embedded Cost/Return | Overall Cost/Return | Income For Return |
| Long-Term Debt | \$ 2,750,000 | 46.0% | \$ 1,443,790 | 5.29% | 2.43% | \$ 76,376 | \$ 1,219,566 | 5.29% | 2.43% | \$ 64,515 | \$ 1,219,566 | 5.29% | 2.43% | \$ 64,515 |
| Common Equity | 5,358,573 | 54.0% | 1,694,883 | -5.76% | -3.10% | (97,553) | 1,431,664 | -12.16% | -6.56% | (174,029) | 1,431,664 | 15.49% | 8.37% | 221,833 |
| Totals | \$ 8,108,573 | 100.00% | \$ 3,138,673 | | -0.67% | \$ (21,177) | \$ 2,651,230 | | -4.13% | \$ (109,514) | \$ 2,651,230 | | 10.80% | \$ 286,348 |

Sewer Operations

| Description | Capital Structure | Ratio | Application Per Books (Note 1) | | | | After Accounting and Pro forma Adjustments | | | | After DIUC Rehearing Proposed Increase | | | |
|----------------|-------------------|---------|--------------------------------|----------------------|---------------------|-------------------|--|----------------------|---------------------|-------------------|--|----------------------|---------------------|-------------------|
| | | | Rate Base | Embedded Cost/Return | Overall Cost/Return | Income For Return | Rate Base | Embedded Cost/Return | Overall Cost/Return | Income For Return | Rate Base | Embedded Cost/Return | Overall Cost/Return | Income For Return |
| Long-Term Debt | \$ 2,750,000 | 46.0% | \$ 1,736,661 | 5.29% | 2.43% | \$ 91,869 | \$ 1,479,545 | 5.29% | 2.43% | \$ 78,268 | \$ 1,479,545 | 5.29% | 2.43% | \$ 78,268 |
| Common Equity | 5,358,573 | 54.0% | 2,038,690 | -1.57% | -0.84% | (31,980) | 1,736,857 | -7.51% | -4.05% | (130,370) | 1,736,857 | 14.49% | 7.82% | 251,630 |
| Totals | \$ 8,108,573 | 100.00% | \$ 3,775,351 | | 1.59% | \$ 59,889 | \$ 3,216,402 | | -1.62% | \$ (52,102) | \$ 3,216,402 | | 10.25% | \$ 329,898 |

Note 1: The interest expense calculations reflect ORS's capital structure ratios and cost of debt applied to the Company's per book numbers.

Daufuskie Island Utility Company, Inc.
Docket No. 2014-346-WS
Operating Experience, Rate Base, and Rates of Return
For the Test Year Ended December 31, 2014
Combined Operations

Revised Rehearing Audit Exhibit DFS-9
Page 1 of 16

| <u>Description</u> | (1) <u>Application Per Books \$</u> | (2) <u>Accounting & Pro Forma Adjustments \$</u> | (3) <u>After Accounting & Pro Forma Adjustments \$</u> | (4) <u>9.28% ROE Rehearing Increase \$</u> | (5) <u>After Proposed Increase \$</u> |
|--|--|---|---|---|--|
| <u>OPERATING REVENUE</u> | | | | | |
| Residential revenue | 307,239 | 4,913 1a | 312,152 | 202,178 18a | 514,330 |
| Commercial Revenue | 151,056 | (4,780) 1b | 146,276 | 94,859 18b | 241,135 |
| Irrigation Revenue | 98,309 | 883 1c | 99,192 | 101,988 18c | 201,180 |
| Availability Billing | 489,665 | (3,905) 2 | 485,760 | 447,866 19 | 933,626 |
| Misc. Other Revenue | 30,193 | 4 3 | 30,197 | 16,426 20 | 46,623 |
| <u>TOTAL OPERATING REVENUE</u> | <u>1,076,462</u> | <u>(2,885)</u> | <u>1,073,577</u> | <u>863,317</u> | <u>1,936,894</u> |
| <u>OPERATION AND MAINTENANCE EXPENSES</u> | | | | | |
| Operation and Maintenance Expenses | 848,818 | (31,228) 4 | 817,590 | 84,744 21 | 902,334 |
| <u>TOTAL OPERATION AND MAINTENANCE EXPENSES</u> | <u>848,818</u> | <u>(31,228)</u> | <u>817,590</u> | <u>84,744</u> | <u>902,334</u> |
| Depreciation and Amortization Expense | 73,072 | 9,488 5 | 82,560 | 0 | 82,560 |
| Amortization of Rate Case Expenses | 92,420 | 27,912 6 | 120,332 | 0 | 120,332 |
| Taxes Other than Income Tax Expense | 23,440 | 191,271 7 | 214,711 | 7,395 22 | 222,106 |
| Income Tax Expense | 0 | 0 8 | 0 | 174,109 23 | 174,109 |
| <u>TOTAL OPERATING EXPENSES</u> | <u>1,037,750</u> | <u>197,443</u> | <u>1,235,193</u> | <u>266,248</u> | <u>1,501,440</u> |
| <u>NET OPERATING INCOME</u> | <u>38,712</u> | <u>(200,328)</u> | <u>(161,616)</u> | <u>597,069</u> | <u>435,454</u> |
| Add: Customer Growth | 0 | 0 9 | 0 | 1,498 24 | 1,498 |
| <u>NET INCOME (LOSS) FOR RETURN</u> | <u>38,712</u> | <u>(200,328)</u> | <u>(161,616)</u> | <u>598,567</u> | <u>436,952</u> |
| <u>ORIGINAL COST RATE BASE:</u> | | | | | |
| Gross Plant in Service | 7,964,379 | (699,361) 10 | 7,265,018 | 0 | 7,265,018 |
| Accumulated Depreciation | (790,024) | (180,067) 11 | (970,091) | 0 | (970,091) |
| Construction Work In Progress (CWIP) | 254,853 | (254,853) 12 | 0 | 0 | 0 |
| Contributions in Aid of Construction | (660,295) | 0 13 | (660,295) | 0 | (660,295) |
| Accumulated Amortization of CIAC | 69,269 | 213 14 | 69,482 | 0 | 69,482 |
| Net Plant | 6,838,182 | (1,134,068) | 5,704,114 | 0 | 5,704,114 |
| Working Capital | 75,842 | 87,676 15 | 163,518 | 0 | 163,518 |
| Unamortized Balances | 0 | 0 16 | 0 | 0 | 0 |
| <u>TOTAL RATE BASE</u> | <u>6,914,024</u> | <u>(1,046,392)</u> | <u>5,867,632</u> | <u>0</u> | <u>5,867,632</u> |
| <u>RETURN ON RATE BASE</u> | <u>0.56%</u> | | <u>-2.75%</u> | | <u>7.45%</u> |
| <u>OPERATING MARGIN</u> | <u>-12.90%</u> | | <u>-28.35%</u> | | <u>15.19%</u> |
| <u>INTEREST EXPENSE</u> | <u>177,526</u> | <u>(34,743) 17</u> | <u>142,783</u> | <u>0</u> | <u>142,783</u> |

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Daufuskie Island Utility Company, Inc.
Docket No. 2014-346-WS
Operating Experience, Rate Base, and Rates of Return
For the Test Year Ended December 31, 2014
Water Operations

| <u>Description</u> | (1) <u>Application Per Books \$</u> | (2) <u>Accounting & Pro Forma Adjustments \$</u> | (3) <u>After Accounting & Pro Forma Adjustments \$</u> | (4) <u>9.28% ROE Rehearing Increase \$</u> | (5) <u>After Proposed Increase \$</u> |
|--|--|---|---|---|--|
| <u>OPERATING REVENUE</u> | | | | | |
| Water Residential | 139,071 | 491 1a | 139,562 | 101,608 18a | 241,170 |
| Water Commercial | 72,479 | 432 1b | 72,911 | 46,939 18b | 119,850 |
| Water Irrigation | 98,309 | 883 1c | 99,192 | 101,988 18c | 201,180 |
| Availability Billing | 213,004 | (1,926) 2 | 211,078 | 193,989 19 | 405,067 |
| Misc. Other Revenue | 20,444 | (715) 3 | 19,729 | 7,793 20 | 27,522 |
| <u>TOTAL OPERATING REVENUE</u> | 543,307 | (835) | 542,472 | 452,317 | 994,789 |
| <u>WATER OPERATION AND MAINTENANCE EXPENSES</u> | | | | | |
| Operation and Maintenance Expense | 469,605 | (23,034) 4 | 446,571 | 44,852 21 | 491,423 |
| <u>TOTAL OPERATING AND MAINTENANCE EXPENSES</u> | 469,605 | (23,034) | 446,571 | 44,852 | 491,423 |
| Depreciation and Amortization Expense | 36,921 | 5,107 5 | 42,028 | 0 | 42,028 |
| Amortization of Rate Case Expenses | 46,210 | 13,956 6 | 60,166 | 0 | 60,166 |
| Taxes Other than Income Tax Expense | 11,748 | 91,473 7 | 103,221 | 3,874 22 | 107,095 |
| Income Tax Expense | 0 | 0 8 | 0 | 85,627 23 | 85,627 |
| <u>TOTAL OPERATING EXPENSES</u> | 564,484 | 87,502 | 651,986 | 134,353 | 786,338 |
| <u>NET OPERATING INCOME</u> | (21,177) | (88,337) | (109,514) | 317,964 | 208,450 |
| Add: Customer Growth | 0 | 0 9 | 0 | 386 24 | 386 |
| <u>NET INCOME (LOSS) FOR RETURN</u> | (21,177) | (88,337) | (109,514) | 318,350 | 208,836 |
| <u>ORIGINAL COST RATE BASE:</u> | | | | | |
| Gross Plant in Service | 3,899,032 | (427,689) 10 | 3,471,343 | 0 | 3,471,343 |
| Accumulated Depreciation | (382,950) | (119,596) 11 | (502,546) | 0 | (502,546) |
| Construction Work In Progress (CWIP) | 29,511 | (29,511) 12 | 0 | 0 | 0 |
| Contributions in Aid of Construction | (458,500) | 0 13 | (458,500) | 0 | (458,500) |
| Accumulated Amortization of CIAC | 51,580 | 39 14 | 51,619 | 0 | 51,619 |
| Net Plant | 3,138,673 | (576,757) | 2,561,916 | 0 | 2,561,916 |
| Working Capital | 0 | 89,314 15 | 89,314 | 0 | 89,314 |
| Unamortized Balances | 0 | 0 16 | 0 | 0 | 0 |
| <u>TOTAL RATE BASE</u> | 3,138,673 | (487,443) | 2,651,230 | 0 | 2,651,230 |
| <u>RETURN ON RATE BASE</u> | -0.67% | | -4.13% | | 7.88% |
| <u>OPERATING MARGIN</u> | -20.24% | | -32.08% | | 14.51% |
| <u>INTEREST EXPENSE</u> | 88,763 | (24,248) 17 | 64,515 | 0 | 64,515 |

Daufuskie Island Utility Company, Inc.
Docket No. 2014-346-WS
Operating Experience, Rate Base, and Rates of Return
For the Test Year Ended December 31, 2014
Sewer Operations

Revised Rehearing Audit Exhibit DFS-9
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| <u>Description</u> | (1) Application Per Books \$ | (2) Accounting & Pro Forma Adjustments \$ | (3) After Accounting & Pro Forma Adjustments \$ | (4) 9.28% ROE Rehearing Increase \$ | (5) After Proposed Increase \$ |
|--|--|--|--|---|--|
| <u>OPERATING REVENUE</u> | | | | | |
| Sewer Residential | 168,168 | 4,422 1a | 172,590 | 100,570 18a | 273,160 |
| Sewer Commercial | 78,577 | (5,212) 1b | 73,365 | 47,920 18b | 121,285 |
| Sewer Irrigation | 0 | 0 1c | 0 | 0 18c | 0 |
| Availability Billing | 276,661 | (1,979) 2 | 274,682 | 253,877 19 | 528,559 |
| Misc. Other Revenue | 9,749 | 719 3 | 10,468 | 8,633 20 | 19,101 |
| <u>TOTAL OPERATING REVENUE</u> | 533,155 | (2,050) | 531,105 | 411,000 | 942,105 |
| <u>SEWER OPERATION AND MAINTENANCE EXPENSES</u> | | | | | |
| Operation and Maintenance Expense | 379,213 | (8,194) 4 | 371,019 | 39,892 21 | 410,911 |
| <u>TOTAL OPERATING AND MAINTENANCE EXPENSES</u> | 379,213 | (8,194) | 371,019 | 39,892 | 410,911 |
| Depreciation and Amortization Expense | 36,151 | 4,381 5 | 40,532 | 0 | 40,532 |
| Amortization of Rate Case Expenses | 46,210 | 13,956 6 | 60,166 | 0 | 60,166 |
| Taxes Other than Income Tax Expense | 11,692 | 99,798 7 | 111,490 | 3,521 22 | 115,011 |
| Income Tax Expense | 0 | 0 8 | 0 | 88,482 23 | 88,482 |
| <u>TOTAL OPERATING EXPENSES</u> | 473,266 | 109,941 | 583,207 | 131,895 | 715,102 |
| <u>NET OPERATING INCOME</u> | 59,889 | (111,991) | (52,102) | 279,105 | 227,003 |
| Add: Customer Growth | 0 | 0 9 | 0 | 1,112 24 | 1,112 |
| <u>NET INCOME (LOSS) FOR RETURN</u> | 59,889 | (111,991) | (52,102) | 280,217 | 228,115 |
| <u>ORIGINAL COST RATE BASE:</u> | | | | | |
| Gross Plant in Service | 4,065,347 | (271,672) 10 | 3,793,675 | 0 | 3,793,675 |
| Accumulated Depreciation | (407,074) | (60,471) 11 | (467,545) | 0 | (467,545) |
| Construction Work In Progress (CWIP) | 225,342 | (225,342) 12 | 0 | 0 | 0 |
| Contributions in Aid of Construction | (201,795) | 0 13 | (201,795) | 0 | (201,795) |
| Accumulated Amortization of CIAC | 17,689 | 174 14 | 17,863 | 0 | 17,863 |
| Net Plant | 3,699,509 | (557,311) | 3,142,198 | 0 | 3,142,198 |
| Working Capital | 75,842 | (1,638) 15 | 74,204 | 0 | 74,204 |
| Unamortized Balances | 0 | 0 16 | 0 | 0 | 0 |
| <u>TOTAL RATE BASE</u> | 3,775,351 | (558,949) | 3,216,402 | 0 | 3,216,402 |
| <u>RETURN ON RATE BASE</u> | 1.59% | | -1.62% | | 7.09% |
| <u>OPERATING MARGIN</u> | -5.42% | | -24.55% | | 15.91% |
| <u>INTEREST EXPENSE</u> | 88,763 | (10,495) 17 | 78,268 | 0 | 78,268 |

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Daufuskie Island Utility Company, Inc.
Docket No. 2014-346-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2014

| Description | DIUC | ORS Adj. | Adj. | \$ Combined Operations | \$ Water Operations | \$ Sewer Operations |
|---|----------|-------------|---|------------------------------|---------------------------|---------------------------|
| <u>Accounting and Pro forma Adjustments</u> | | | | | | |
| <u>(1) Service Revenues</u> | | | | | | |
| Residential | (1a) | 1a | ORS and the Company propose to adjust residential revenue to reflect the pro forma number of customers at present rates. | | | |
| | | | Per ORS | 4,913 | 491 | 4,422 |
| | | | Per DIUC | 4,913 | 491 | 4,422 |
| Commercial | (1c) | 1b | ORS and the Company propose to adjust commercial revenue to reflect the pro forma number of customers at present rates. | | | |
| | | | Per ORS | (4,780) | 432 | (5,212) |
| | | | Per DIUC | (4,780) | 432 | (5,212) |
| Irrigation | (1e) | 1c | ORS and the Company propose to adjust irrigation revenue to reflect the pro forma demand at present rates. | | | |
| | | | Per ORS | 883 | 883 | 0 |
| | | | Per DIUC | 883 | 883 | 0 |
| <u>(1) Total Service Revenues</u> | | | | <u>1,016</u> | <u>1,806</u> | <u>(790)</u> |
| <u>(2) Availability Billing Revenue</u> | | | | | | |
| Availability Billing | (1g) | 2 | ORS and the Company propose to adjust availability revenue to reflect the pro forma number of customers at present rates. | | | |
| | | | Per ORS | (3,905) | (1,926) | (1,979) |
| | | | Per DIUC | (3,905) | (1,926) | (1,979) |
| <u>(2) Total Availability Billing Revenue</u> | | | | <u>(3,905)</u> | <u>(1,926)</u> | <u>(1,979)</u> |
| <u>(3) Miscellaneous Other Revenue</u> | | | | | | |
| Miscellaneous Other Revenue | (1g, 1i) | 3 | ORS and the Company propose to adjust miscellaneous revenues to reflect the pro forma number of customers at present rates. | | | |
| | | | Per ORS | 4 | (715) | 719 |
| | | | Per DIUC | 4 | (715) | 719 |
| <u>(3) Total Miscellaneous Other Revenue</u> | | | | <u>4</u> | <u>(715)</u> | <u>719</u> |

Daufuskie Island Utility Company, Inc.
Docket No. 2014-346-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2014

| Description | DIUC Adj. | ORS Adj. | \$ Combined Operations | \$ Water Operations | \$ Sewer Operations |
|---|--------------|-------------|---|---------------------------|---------------------------|
| (4) Operation & Maintenance Expenses | | | | | |
| Wages | (2) | 4a | ORS and the Company propose to annualize salary expense. | | |
| | | | Per ORS | 19,988 | 9,994 |
| | | | Per DIUC | 19,988 | 9,994 |
| Benefits | (3) | 4b | ORS and the Company propose to annualize employee benefits. | | |
| | | | Per ORS | (2,780) | (1,390) |
| | | | Per DIUC | (2,780) | (1,390) |
| Officer & Director Fees | (4) | 4c | ORS and the Company do not propose to adjust Directors' Fees to reflect annual Officer's fees of \$12,000 and Directors' fees of \$4,500. These fees were already included in the per book amounts. | | |
| | | | Per ORS | 0 | 0 |
| | | | Per DIUC | 0 | 0 |
| Power | (5) | 4d | ORS and the Company propose to adjust for the most recent 12 months of power expenses. | | |
| | | | Per ORS | 14,744 | 7,372 |
| | | | Per DIUC | 14,744 | 7,372 |
| Chemicals | (6) | 4e | ORS and the Company do not propose to adjust for increased demand. | | |
| | | | Per ORS | 0 | 0 |
| | | | Per DIUC | 0 | 0 |
| Supplies & Maintenance | (7) | 4f | ORS and the Company propose to adjust supplies and maintenance for undocumented expense. ORS and the Company do not propose to adjust for an increase in customers in this adjustment. | | |
| | | | Per ORS | (21) | (21) |
| | | | Per DIUC | (21) | (21) |
| Outside Services - Mgmt. | (8) | 4g | ORS proposes to adjust outside management services to reflect the PSC approved amount in Docket No. 2011-229-WS. | | |
| | | | Per ORS | (25,439) | (12,720) |
| | | | Per DIUC | 13,714 | 6,857 |

Daufuskie Island Utility Company, Inc.
Docket No. 2014-346-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2014

| Description | DIUC ORS | | \$ Combined Operations | \$ Water Operations | \$ Sewer Operations |
|--|----------|------|---|---------------------------|---------------------------|
| | Adj. | Adj. | | | |
| Outside Services - Engineering | (9) | 4h | ORS and the Company do not propose to adjust outside services-engineering to reflect a 4-year average cost. | | |
| | | | Per ORS | 0 | 0 |
| | | | Per DIUC | 0 | 0 |
| Transportation | (10) | 4i | ORS and the Company do not propose to adjust transportation cost for an increase in employees. | | |
| | | | Per ORS | 0 | 0 |
| | | | Per DIUC | 0 | 0 |
| Bad Debt | (11) | 4j | ORS proposes to adjust bad debt expense to reflect test period revenue write-off percentages applied to ORS pro forma revenue under present rates. ORS adjustment amount agrees to Audit Exhibit ICG-4. | | |
| | | | Per ORS | (284) | (248) |
| | | | Per DIUC | 2,681 | 1,446 |
| Insurance | (12) | 4k | ORS and the Company propose to adjust insurance to reflect the most recent actual bills. | | |
| | | | Per ORS | 8,706 | 1,258 |
| | | | Per DIUC | 8,706 | 7,448 |
| Regulatory Expense (DHEC) | (13) | 4l | ORS and the Company propose to adjust regulatory expense to reflect the most recent DHEC drinking water bills and land permits. | | |
| | | | Per ORS | (109) | 2,645 |
| | | | Per DIUC | (109) | 2,645 |
| Nonallowable Expense | | 4m | ORS and the Company propose to remove nonallowable expenses for ratemaking purposes. Additionally, test year rate case expenses were removed and amortized in adjustment 6a. | | |
| | | | Per ORS | (46,033) | (30,136) |
| | | | Per DIUC | (46,033) | (15,897) |
| (4) Total Operation & Maintenance Expenses | | | (31,228) | (23,034) | (8,194) |

Daufuskie Island Utility Company, Inc.
Docket No. 2014-346-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2014

| Description | DIUC | ORS | | \$ Combined Operations | \$ Water Operations | \$ Sewer Operations |
|--|------|------|---|------------------------------|---------------------------|---------------------------|
| | Adj. | Adj. | | | | |
| (5) <u>Depreciation Expense and Amortization of Contributions In Aid of Construction ("CIAC")</u> | | | | | | |
| Depreciation Expense | (14) | 5a | To adjust annual depreciation for pro forma plant in service. See Rehearing Audit Exhibit DFS-5. | | | |
| | | | Per ORS | 9,394 | 5,134 | 4,260 |
| | | | Per DIUC | 28,367 | 9,525 | 18,842 |
| Amortization of CIAC | (14) | 5b | To adjust for amortization of CIAC. See Rehearing Audit Exhibit DFS-5. | | | |
| | | | Per ORS | 94 | (27) | 121 |
| | | | Per DIUC | (5,899) | (4,326) | (1,573) |
| (5) <u>Total Depreciation Expense and Amortization of CIAC</u> | | | | <u>9,488</u> | <u>5,107</u> | <u>4,381</u> |
| (6) <u>Amortization Expense</u> | | | | | | |
| Rate Case Amortization Expense | (15) | 6a | To adjust for the 5-year amortization of rate case expenses and include unamortized rate case expenses from the previous rate case. | | | |
| | | | Per ORS | (37,944) | (18,972) | (18,972) |
| | | | Per DIUC | 192,576 | 96,288 | 96,288 |
| Property Tax Amortization Expense | (15) | 6b | ORS and the Company propose to adjust for property tax amortization over 8 years. | | | |
| | | | Per ORS | 65,856 | 32,928 | 32,928 |
| | | | Per DIUC | 65,856 | 32,928 | 32,928 |
| (6) <u>Total Amortization Expense</u> | | | | <u>27,912</u> | <u>13,956</u> | <u>13,956</u> |
| (7) <u>Taxes Other Than Income Tax Expense</u> | | | | | | |
| Revenue Taxes | (16) | 7a | ORS and the Company propose to reflect gross receipts on ORS's pro forma revenue under present rates. | | | |
| | | | Per ORS | 3,148 | 1,595 | 1,553 |
| | | | Per DIUC | 3,148 | 1,595 | 1,553 |
| Property Taxes | (17) | 7b | ORS and the Company propose to adjust property taxes to reflect actual tax bills for property owned by DIUC. | | | |
| | | | Per ORS | 188,093 | 89,863 | 98,230 |
| | | | Per DIUC | 188,093 | 89,863 | 98,230 |

Daufuskie Island Utility Company, Inc.
Docket No. 2014-346-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2014

| Description | DIUC | ORS | | \$ Combined Operations | \$ Water Operations | \$ Sewer Operations |
|---|------|------|--|------------------------------|---------------------------|---------------------------|
| | Adj. | Adj. | | | | |
| Payroll Taxes | (18) | 7c | ORS and the Company propose to adjust payroll taxes to reflect pro forma wages. | | | |
| | | | Per ORS | 30 | 15 | 15 |
| | | | Per DIUC | 30 | 15 | 15 |
| (7) <u>Total Taxes Other Than Income Tax Expense</u> | | | | <u>191,271</u> | <u>91,473</u> | <u>99,798</u> |
| (8) <u>Income Tax Expense</u> | | | | | | |
| Income Taxes - State and Federal | (19) | 8 | ORS and the Company do not propose to adjust for State and Federal Income Taxes after accounting and pro forma adjustments. See Rehearing Audit Exhibit DFS-6. | | | |
| | | | Per ORS | 0 | 0 | 0 |
| | | | Per DIUC | 0 | 0 | 0 |
| (8) <u>Total Income Tax Expense</u> | | | | <u>0</u> | <u>0</u> | <u>0</u> |
| (9) <u>Customer Growth</u> | | | | | | |
| | | 9 | ORS and the Company do not propose to adjust for customer growth after the accounting and pro forma adjustments. | | | |
| | | | Per ORS | 0 | 0 | 0 |
| | | | Per DIUC | 0 | 0 | 0 |
| (9) <u>Total Customer Growth</u> | | | | <u>0</u> | <u>0</u> | <u>0</u> |
| <u>Rate Base (RB)</u> | | | | | | |
| (10) <u>Plant in Service</u> | | | | | | |
| Plant in Service | RB1 | 10 | To include the elevated water storage tank and well located on the elevated tank site and reflect all other adjustments to plant in service as included on Audit Exhibit ICG-5. See Rehearing Audit Exhibit DFS-5. | | | |
| | | | Per ORS | (699,361) | (427,689) | (271,672) |
| | | | Per DIUC | 174,882 | 50,925 | 123,957 |
| (10) <u>Total Plant in Service</u> | | | | <u>(699,361)</u> | <u>(427,689)</u> | <u>(271,672)</u> |

Daufuskie Island Utility Company, Inc.
Docket No. 2014-346-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2014

| Description | DIUC Adj. | ORS Adj. | | \$ Combined Operations | \$ Water Operations | \$ Sewer Operations |
|--|--------------|-------------|--|------------------------------|---------------------------|---------------------------|
| (11) Accumulated Depreciation | | | | | | |
| Accumulated Depreciation | RB2 | 11 | To adjust accumulated depreciation to include the elevated water storage tank and well located on the elevated tank site and reflect all other adjustments to plant in service as included on Audit Exhibit ICG-5. | | | |
| | | | Per ORS | (180,067) | (119,596) | (60,471) |
| | | | Per DIUC | 12,170 | (46,446) | 58,616 |
| (11) Total Accumulated Depreciation | | | | <u>(180,067)</u> | <u>(119,596)</u> | <u>(60,471)</u> |
| (12) Construction Work in Progress (CWIP) | | | | | | |
| Construction Work in Progress(CWIP) | RB3 | 12 | ORS and the Company propose to adjust CWIP to move completed projects to plant in service. | | | |
| | | | Per ORS | (254,853) | (29,511) | (225,342) |
| | | | Per DIUC | (254,853) | (29,511) | (225,342) |
| (12) Total CWIP | | | | <u>(254,853)</u> | <u>(29,511)</u> | <u>(225,342)</u> |
| (13) CIAC | | | | | | |
| Contributions in Aid of Construction (CIAC) | RB4 | 13 | ORS and the Company do not propose to adjust CIAC for customer growth. | | | |
| | | | Per ORS | 0 | 0 | 0 |
| | | | Per DIUC | 0 | 0 | 0 |
| (13) Total CIAC | | | | <u>0</u> | <u>0</u> | <u>0</u> |
| (14) Accumulated Amortization of CIAC | | | | | | |
| Accumulated Amortization of CIAC | RB5 | 14 | To include amortization expense in accumulated CIAC. | | | |
| | | | Per ORS | 213 | 39 | 174 |
| | | | Per DIUC | 6,073 | 4,326 | 1,747 |
| (14) Total Accumulated Amortization of CIAC | | | | <u>213</u> | <u>39</u> | <u>174</u> |

Daufuskie Island Utility Company, Inc.
Docket No. 2014-346-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2014

| Description | DIUC | ORS | | \$ Combined Operations | \$ Water Operations | \$ Sewer Operations |
|--|------|------|--|------------------------------|---------------------------|---------------------------|
| | Adj. | Adj. | | | | |
| (15) <u>Cash Working Capital</u> | | | | | | |
| Cash Working Capital (1/5 O&M) | RB6 | 15 | To adjust cash working capital after ORS accounting and pro forma adjustments. See Rehearing Audit Exhibit DFS-7. | | | |
| | | | Per ORS | 87,676 | 89,314 | (1,638) |
| | | | Per DIUC | 198,787 | 106,878 | 91,909 |
| (15) <u>Total Cash Working Capital</u> | | | | <u>87,676</u> | <u>89,314</u> | <u>(1,638)</u> |
| (16) <u>Unamortized Balances</u> | | | | | | |
| Unamortized Balances | RB7 | 16 | ORS and the Company do not propose to include the unamortized balance of rate case expense in rate base. | | | |
| | | | Per ORS | 0 | 0 | 0 |
| | | | Per DIUC | 0 | 0 | 0 |
| (16) <u>Total Unamortized Balances</u> | | | | <u>0</u> | <u>0</u> | <u>0</u> |
| (17) <u>Interest Expense</u> | | | | | | |
| Interest Expense | | 17 | To adjust the interest expense on long-term debt for accounting and pro forma adjustments. | | | |
| | | | Per ORS | (34,743) | (24,248) | (10,495) |
| | | | Per DIUC | 38,009 | 10,885 | 27,124 |
| (17) <u>Total Interest Expense</u> | | | | <u>(34,743)</u> | <u>(24,248)</u> | <u>(10,495)</u> |
| <u>DIUC Rehearing Proposed Increase</u> | | | | | | |
| (18) <u>Service Revenues</u> | | | | | | |
| Residential | (1b) | 18a | To adjust residential revenue to reflect the pro forma number of customers and calculate a 9.28% return on equity. | | | |
| | | | Per ORS | 202,178 | 101,608 | 100,570 |
| | | | Per DIUC | 383,382 | 173,488 | 209,894 |
| Commercial | (1d) | 18b | To adjust commercial revenue to reflect the pro forma number of customers and calculate a 9.28% return on equity. | | | |
| | | | Per ORS | 94,859 | 46,939 | 47,920 |
| | | | Per DIUC | 139,081 | 58,633 | 80,448 |

Daufuskie Island Utility Company, Inc.
Docket No. 2014-346-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2014

| Description | DIUC Adj. | ORS Adj. | | \$ Combined Operations | \$ Water Operations | \$ Sewer Operations |
|--|--------------|-------------|--|------------------------------|---------------------------|---------------------------|
| Irrigation | (1f) | 18c | To adjust irrigation revenue to reflect the pro forma number of customers and calculate a 9.28% return on equity. | | | |
| | | | Per ORS | 101,988 | 101,988 | 0 |
| | | | Per DIUC | 108,369 | 108,369 | 0 |
| (18) <u>Total Service Revenues</u> | | | | <u>399,025</u> | <u>250,535</u> | <u>148,490</u> |
| (19) <u>Availability Billing Revenue</u> | | | | | | |
| Availability Billing | (1f, 1h) | 19 | To adjust availability revenue to reflect the pro forma number of customers and calculate a 9.28% return on equity. | | | |
| | | | Per ORS | 447,866 | 193,989 | 253,877 |
| | | | Per DIUC | 518,553 | 227,804 | 290,749 |
| (19) <u>Total Availability Billing Revenue</u> | | | | <u>447,866</u> | <u>193,989</u> | <u>253,877</u> |
| (20) <u>Miscellaneous Other Revenue</u> | | | | | | |
| Miscellaneous Other Revenue | (1h, 1j) | 20 | To adjust miscellaneous revenues to reflect the pro forma number of customers and calculate a 9.28% return on equity. | | | |
| | | | Per ORS | 16,426 | 7,793 | 8,633 |
| | | | Per DIUC | 32,914 | 22,159 | 10,755 |
| (20) <u>Total Miscellaneous Other Revenue</u> | | | | <u>16,426</u> | <u>7,793</u> | <u>8,633</u> |
| (21) <u>Operating Expenses</u> | | | | | | |
| Bad Debt | (20) | 21 | To adjust bad debt expense for the revenue necessary to calculate a 9.28% return on equity and using the methodology and percentages to calculate the adjustment on Audit Exhibit ICG-4. | | | |
| | | | Per ORS | 84,744 | 44,852 | 39,892 |
| | | | Per DIUC | 134,233 | 66,765 | 67,468 |
| (21) <u>Total Operating Expenses</u> | | | | <u>84,744</u> | <u>44,852</u> | <u>39,892</u> |
| (22) <u>Taxes Other than Income Taxes</u> | | | | | | |
| Revenue Taxes | (21) | 22 | To adjust gross receipts to reflect the revenue necessary to calculate a 9.28% return on equity. | | | |
| | | | Per ORS | 7,395 | 3,874 | 3,521 |
| | | | Per DIUC | 11,557 | 5,722 | 5,835 |
| (22) <u>Total Taxes Other than Income Taxes</u> | | | | <u>7,395</u> | <u>3,874</u> | <u>3,521</u> |

Daufuskie Island Utility Company, Inc.
Docket No. 2014-346-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2014

| Description | DIUC ORS | | \$ Combined Operations | \$ Water Operations | \$ Sewer Operations | |
|---|----------|------|---|---------------------------|---------------------------|---------|
| | Adj. | Adj. | | | | |
| (23) <u>Income Tax Expense</u> | | | | | | |
| State and Federal Income Taxes | (22) | 23 | To adjust State and Federal income taxes for the revenue necessary to calculate a 9.28% return on equity. See Rehearing Audit Exhibit DFS-6. | | | |
| | | | Per ORS | 174,109 | 85,627 | 88,482 |
| | | | Per DIUC | 201,667 | 93,236 | 108,431 |
| (23) <u>Total Income Tax Expense</u> | | | | 174,109 | 85,627 | 88,482 |
| (24) <u>Customer Growth</u> | | | | | | |
| | | 24 | To adjust for customer growth for the revenue necessary to calculate a 9.28% return on equity. ORS used the growth factors of 0.18519% for water and 0.48985% for sewer as was done on Audit Exhibit ICG-4. | | | |
| | | | Per ORS | 1,498 | 386 | 1,112 |
| | | | Per DIUC | 0 | 0 | 0 |
| (24) <u>Total Customer Growth</u> | | | | 1,498 | 386 | 1,112 |

Daufuskie Island Utility Company, Inc.
Docket No. 2014-346-WS
Computation of Depreciation and Amortization Expense
For the Test Year Ended December 31, 2014

Depreciation Expense Adjustment

| Description | Plant Balance 12/31/14 | ORS Adjustment | Water Total | Service life | Dep. Rate | Utilization Factor | 2014 Depr. Expense | Less: Per Books | ORS Adjustment |
|-------------------------|---------------------------|----------------|--------------|--------------|-----------|-----------------------|-----------------------|--------------------|-------------------|
| Organizational Costs | \$ 73,597 | \$ (73,597) | \$ - | | | | | | |
| Land & Land Rights | \$ 56,702 | \$ (56,702) | \$ - | | | | | | |
| General Plant | | | \$ 17,547 | 6 | 16.67% | 100.00% | \$ 2,925 | | |
| General Plant | | | \$ 597 | 15 | 6.67% | 100.00% | \$ 40 | | |
| General Plant | | | \$ 5,143 | 16 | 6.25% | 100.00% | \$ 321 | | |
| General Plant | | | \$ 22,175 | 40 | 2.50% | 100.00% | \$ 554 | | |
| Total General Plant | \$ 59,599 | \$ (14,137) | \$ 45,462 | | | | | | |
| Other Intangible Plant | \$ 404 | \$ - | \$ 404 | 10 | 10.00% | 100.00% | \$ 40 | | |
| Meters | \$ 8,786 | \$ 1,718 | \$ 10,504 | 20 | 5.00% | 45.28% | \$ 238 | | |
| Pumping | \$ 61,307 | \$ (24,605) | \$ 36,702 | 20 | 5.00% | 45.28% | \$ 831 | | |
| Reservoirs & Standpipes | \$ 907,325 | \$ (9,246) | \$ 898,079 | 37 | 2.70% | 45.28% | \$ 10,980 | | |
| Storage | \$ 81,907 | \$ (75,907) | \$ 6,000 | 37 | 2.70% | 45.28% | \$ 73 | | |
| Treatment | | | \$ 4,816 | 30 | 3.33% | 45.28% | \$ 73 | | |
| Treatment | | | \$ 234,776 | 32 | 3.13% | 45.28% | \$ 3,327 | | |
| Total Treatment | \$ 321,643 | \$ (82,051) | \$ 239,592 | | | | | | |
| Water & Sewer Mains | \$ 1,509,687 | \$ (91,176) | \$ 1,418,511 | 45 | 2.22% | 45.28% | \$ 14,259 | | |
| Wells | \$ 794,864 | \$ - | \$ 794,864 | 30 | 3.33% | 45.28% | \$ 11,985 | | |
| Well Site | \$ 23,211 | \$ (1,986) | \$ 21,225 | 18 | 5.56% | 45.28% | \$ 534 | | |
| Total | \$ 3,899,032 | \$ (427,689) | \$ 3,471,343 | | | | \$ 46,180 | 41,046 | 5,134 |

| Description | Plant Balance 12/31/14 | ORS Adjustment | Wastewater Total | Service life | Dep. Rate | Utilization Factor | 2014 Depr. Expense | Less: Per Books | ORS Adjustment |
|----------------------------|---------------------------|----------------|------------------|--------------|-----------|-----------------------|-----------------------|--------------------|-------------------|
| Organizational Costs | \$ 73,597 | \$ (73,597) | \$ - | | | | | | |
| Land & Land Rights | \$ 63,710 | \$ (63,710) | \$ - | | | | | | |
| General Plant | | | \$ 17,547 | 6 | 16.67% | 100.00% | \$ 2,925 | | |
| General Plant | | | \$ 597 | 15 | 6.67% | 100.00% | \$ 40 | | |
| General Plant | | | \$ 4,780 | 16 | 6.25% | 100.00% | \$ 299 | | |
| General Plant | | | \$ 4,592 | 18 | 5.56% | 100.00% | \$ 255 | | |
| General Plant | | | \$ 22,175 | 40 | 2.50% | 100.00% | \$ 554 | | |
| Total General Plant | \$ 54,868 | \$ (5,177) | \$ 49,691 | | | | | | |
| Other Intangible Plant | \$ 204 | \$ - | \$ 204 | 10 | 10.00% | 100.00% | \$ 20 | | |
| Power Generation Equipment | \$ 4,632 | \$ 4,514 | \$ 9,146 | 20 | 5.00% | 33.88% | \$ 155 | | |
| Pumping | | | \$ 85,323 | 18 | 5.56% | 33.88% | \$ 1,607 | | |
| Pumping | | | \$ 53,027 | 25 | 4.00% | 33.88% | \$ 719 | | |
| Total Pumping | \$ 158,189 | \$ (19,839) | \$ 138,350 | | | | | | |
| T&D Equipment | | | \$ 29,163 | 15 | 6.67% | 33.88% | \$ 659 | | |
| T&D Equipment | | | \$ 4,114 | 18 | 5.56% | 33.88% | \$ 77 | | |
| T&D Equipment | | | \$ 380,128 | 32 | 3.13% | 33.88% | \$ 4,031 | | |
| Total T&D Equipment | \$ 417,412 | \$ (4,007) | \$ 413,405 | | | | | | |
| Treatment | | | \$ 3,600 | 15 | 6.67% | 33.88% | \$ 81 | | |
| Treatment | | | \$ 91,380 | 18 | 5.56% | 33.88% | \$ 1,721 | | |
| Treatment | | | \$ 121,491 | 32 | 3.13% | 33.88% | \$ 1,288 | | |
| Total Treatment | \$ 289,565 | \$ (73,094) | \$ 216,471 | | | | | | |
| Water & Sewer Mains | \$ 2,118,279 | \$ (36,762) | \$ 2,081,517 | 45 | 2.22% | 33.88% | \$ 15,656 | | |
| Outfall Main | \$ 66,704 | \$ - | \$ 66,704 | 30 | 3.33% | 33.88% | \$ 753 | | |
| WW Treatment Plant | \$ 818,187 | \$ - | \$ 818,187 | 32 | 3.13% | 33.88% | \$ 8,676 | | |
| Total | \$ 4,065,347 | \$ (271,672) | \$ 3,793,675 | | | | \$ 39,516 | 35,256 | 4,260 |

this amount is negative after accou
Exhibit DFS-9, pages 1-3, Column 3.

Amortization of CIAC

| Description | Per Books | Adjustment | W/WW Total | Service life | Dep. Rate | Utilization Factor | 2014 Amort. Expense | Less: Per Books | ORS Adjustment |
|--------------------------------|--------------|------------|--------------|--------------|-----------|-----------------------|------------------------|--------------------|-------------------|
| Water - CIAC @12/31/2014 | \$ (458,500) | \$ - | \$ (458,500) | 50 | 2.00% | 45.28% | (4,152) | (4,125) | (27) |
| Wastewater - CIAC @ 12/31/2014 | \$ (201,795) | \$ - | \$ (201,795) | 50 | 2.00% | 33.88% | (1,367) | (1,488) | 121 |
| Total Water/Wastewater CIAC | \$ (660,295) | \$ - | \$ (660,295) | | | | \$ (5,519) | \$ (5,613) | \$ 94 |

- Reservoirs & Standpipes water total per Audit Exhibit ICG-5 was \$34,700. Water total of \$898,079 above with inclusion of elevated storage tank of \$863,379.
- Wells water total per Audit Exhibit ICG-5 was \$732,908. Water total of \$794,864 above with inclusion of elevated tank site well of \$61,956.

Daufuskie Island Utility Company, Inc.
Docket No. 2014-346-WS
Computation of Income Taxes
For the Test Year Ended December 31, 2014

| After Accounting & Pro Forma Adjustments | | | |
|--|------------------------------|---------------------------|---------------------------|
| Description | \$ Combined Operations | \$ Water Operations | \$ Sewer Operations |
| Operating Revenues | 1,073,577 | 542,472 | 531,105 |
| Operating Expenses | 1,235,193 | 651,986 | 583,207 |
| Net Operating Income Before Taxes | (161,616) | (109,514) | (52,102) |
| Less: Annualized Interest Expense | 142,783 | 64,515 | 78,268 |
| Taxable Income - State | (304,399) | (174,029) | (130,370) |
| State Taxable Income | 5% | 5% | 5% |
| State Income Taxes (Note) | (15,220) | (8,701) | (6,519) |
| Less: State Income Taxes Per Book | 0 | 0 | 0 |
| Adjustment to State Income Taxes | 0 | 0 | 0 |
| Taxable Income - Federal (Note) | (289,179) | (165,327) | (123,852) |
| Federal Income Tax @ 34% | (98,321) | (56,211) | (42,110) |
| Less: Federal Income Taxes Per Book | 0 | 0 | 0 |
| Adjustment to Federal Income Taxes | 0 | 0 | 0 |
| Total Adjustment to Income Taxes (Note) | 0 | 0 | 0 |

| After 9.28% Return on Equity Rehearing Increase | | | |
|---|------------------------------|---------------------------|---------------------------|
| Description | \$ Combined Operations | \$ Water Operations | \$ Sewer Operations |
| Operating Revenues | 1,936,894 | 994,789 | 942,105 |
| Operating Expenses | 1,327,332 | 700,712 | 626,620 |
| Net Operating Income Before Taxes | 609,562 | 294,077 | 315,485 |
| Less: Annualized Interest Expense | 142,783 | 64,515 | 78,268 |
| Taxable Income - State | 466,779 | 229,562 | 237,217 |
| State Taxable Income | 5% | 5% | 5% |
| State Income Taxes | 23,339 | 11,478 | 11,861 |
| Less: State Income Taxes Per Book | 0 | 0 | 0 |
| Adjustment to State Income Taxes | 23,339 | 11,478 | 11,861 |
| Taxable Income - Federal | 443,440 | 218,084 | 225,356 |
| Federal Income Tax @ 34% | 150,770 | 74,149 | 76,621 |
| Less: Federal Income Taxes Per Book | 0 | 0 | 0 |
| Adjustment to Federal Income Taxes | 150,770 | 74,149 | 76,621 |
| Total Adjustment to Income Taxes | 174,109 | 85,627 | 88,482 |

Note: Taxable income is based on the calculation of net operating income before taxes less annualized interest expense. Since this amount is negative after accounting and pro forma adjustments, there are no income taxes as shown on Revised Rehearing Audit Exhibit DFS-9, pages 1-3, Column 3.

Daufuskie Island Utility Company, Inc.
Docket No. 2014-346-WS
Cash Working Capital Allowance
For the Test Year Ended December 31, 2014

After Accounting & Pro Forma Adjustments

| Description | \$ Combined Operations | \$ Water Operations | \$ Sewer Operations |
|--|---------------------------------------|------------------------------------|------------------------------------|
| Total Expenses for Computation | 817,590 | 446,571 | 371,019 |
| Allowable Rate (1/5 O&M) | 20.00% | 20.00% | 20.00% |
| Computed Cash Working Capital | 163,518 | 89,314 | 74,204 |
| Cash Working Capital - Application Per Books | 75,842 | 0 | 75,842 |
| Cash Working Capital Adjustment - ORS Accounting & Pro Forma Adjustment | 87,676 | 89,314 | (1,638) |

Daufuskie Island Utility Company, Inc.
Docket No. 2014-346-WS
Return on Equity
For the Test Year Ended December 31, 2014

Combined Operations

| Description | Capital Structure | | Application Per Books (Note 1) | | | | After Accounting and Pro forma Adjustments | | | | After 9.28% Return on Equity Rehearing Increase | | | |
|----------------|-------------------|---------|--------------------------------|----------------------|---------------------|-------------------|--|----------------------|---------------------|-------------------|---|----------------------|---------------------|-------------------|
| | | | Rate Base | Embedded Cost/Return | Overall Cost/Return | Income For Return | Rate Base | Embedded Cost/Return | Overall Cost/Return | Income For Return | Rate Base | Embedded Cost/Return | Overall Cost/Return | Income For Return |
| Long-Term Debt | \$ 2,750,000 | 46.0% | \$ 3,180,451 | 5.29% | 2.43% | \$ 168,246 | \$ 2,699,111 | 5.29% | 2.43% | \$ 142,783 | \$ 2,699,111 | 5.29% | 2.43% | \$ 142,783 |
| Common Equity | 5,358,573 | 54.0% | 3,733,573 | -3.47% | -1.87% | (129,534) | 3,168,521 | -9.61% | -5.19% | (304,399) | 3,168,521 | 9.28% | 5.01% | 294,169 |
| Totals | \$ 8,108,573 | 100.00% | \$ 6,914,024 | | 0.56% | \$ 38,712 | \$ 5,867,632 | | -2.76% | \$ (161,616) | \$ 5,867,632 | | 7.44% | \$ 436,952 |

Water Operations

| Description | Capital Structure | | Application Per Books (Note 1) | | | | After Accounting and Pro forma Adjustments | | | | After 9.28% Return on Equity Rehearing Increase | | | |
|----------------|-------------------|---------|--------------------------------|----------------------|---------------------|-------------------|--|----------------------|---------------------|-------------------|---|----------------------|---------------------|-------------------|
| | | | Rate Base | Embedded Cost/Return | Overall Cost/Return | Income For Return | Rate Base | Embedded Cost/Return | Overall Cost/Return | Income For Return | Rate Base | Embedded Cost/Return | Overall Cost/Return | Income For Return |
| Long-Term Debt | \$ 2,750,000 | 46.0% | \$ 1,443,790 | 5.29% | 2.43% | \$ 76,376 | \$ 1,219,566 | 5.29% | 2.43% | \$ 64,515 | \$ 1,219,566 | 5.29% | 2.43% | \$ 64,515 |
| Common Equity | 5,358,573 | 54.0% | 1,694,883 | -5.76% | -3.10% | (97,553) | 1,431,664 | -12.16% | -6.56% | (174,029) | 1,431,664 | 10.08% | 5.44% | 144,322 |
| Totals | \$ 8,108,573 | 100.00% | \$ 3,138,673 | | -0.67% | \$ (21,177) | \$ 2,651,230 | | -4.13% | \$ (109,514) | \$ 2,651,230 | | 7.87% | \$ 208,837 |

Sewer Operations

| Description | Capital Structure | | Application Per Books (Note 1) | | | | After Accounting and Pro forma Adjustments | | | | After 9.28% Return on Equity Rehearing Increase | | | |
|----------------|-------------------|---------|--------------------------------|----------------------|---------------------|-------------------|--|----------------------|---------------------|-------------------|---|----------------------|---------------------|-------------------|
| | | | Rate Base | Embedded Cost/Return | Overall Cost/Return | Income For Return | Rate Base | Embedded Cost/Return | Overall Cost/Return | Income For Return | Rate Base | Embedded Cost/Return | Overall Cost/Return | Income For Return |
| Long-Term Debt | \$ 2,750,000 | 46.0% | \$ 1,736,661 | 5.29% | 2.43% | \$ 91,869 | \$ 1,479,545 | 5.29% | 2.43% | \$ 78,268 | \$ 1,479,545 | 5.29% | 2.43% | \$ 78,268 |
| Common Equity | 5,358,573 | 54.0% | 2,038,690 | -1.57% | -0.84% | (31,980) | 1,736,857 | -7.51% | -4.05% | (130,370) | 1,736,857 | 8.63% | 4.66% | 149,847 |
| Totals | \$ 8,108,573 | 100.00% | \$ 3,775,351 | | 1.59% | \$ 59,889 | \$ 3,216,402 | | -1.62% | \$ (52,102) | \$ 3,216,402 | | 7.09% | \$ 228,115 |

Note 1: The interest expense calculations reflect ORS's capital structure ratios and cost of debt applied to the Company's per book numbers.